


**DIVIDEND**

**DECLARATION**





∞ Dividend declaration should be in compliance with Section 43,143 and 62(item no. 5) of the Corporation Code of the Phils. , SEC Memo Circular No. 11 series of 2008 and Sec Resolution No. 450 series of 2005.

∞ Dividends may be declared from the unrestricted or unappropriated retained earnings of the company upon approval by majority vote of the board of directors( for cash and property div.) and by the stockholders representing at least two-thirds (2/3) of the outstanding capital stock (for stock div)

# A. Definition of Terms

## **Dividends**

refers to the corporate profits allocated, lawfully declared and ordered by the directors to be paid to the stockholders on demand or at a fixed time.

## **Retained earnings**

refers to the accumulated profits realized out of the normal and continuous operations of the company after deducting therefrom distribution to stockholders and transfer to capital stock or other accounts. (unappropriated or free retained earnings and appropriated retained earnings)



## **Outstanding Shares**

means the total shares of stocks issued to the subscribers or stockholders whether or not fully or partially paid (as long as there is a binding subscription agreement) except treasury shares.

# B. Classes of Dividends

## 1. Cash Dividend

## 2. Stock Dividend

(maybe declared from the unissued capital stock and from the increase in authorized capital stock)

## 3. Property Dividend


(ex. Investment in shares of stocks, Treasury Stocks, Land)

## **C. What are the objectives in evaluating the documentary requirements**


- 1. To establish sufficiency of unrestricted retained earnings**
- 2. To establish that the retained earnings will not be impaired**
- 3. Distribution is proportionate**
- 4. To establish that there are enough shares to be issued**

## Documentary Requirements for the issuance of cash and stock dividend (from unissued capital stock)

1. Certification under oath by the Corporate Secretary on the board of directors resolution declaring the dividend(cash or stock)
2. Audited financial statements as of the last fiscal year stamped received by BIR and SEC


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3. Reconciliation of unappropriated retained earnings available for dividend declaration (in accordance with SEC Memo Circular No. 11)
  4. List of stockholders with their respective subscribed capital stock as of the date of meeting approving the declaration of stock dividend together with the allocation of stock dividend certified by under oath by the Corporate Secretary (for stock dividend only)



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5. Analysis of capital structure certified under oath by the Treasurer (for stock dividend)
  6. Clearance from other departments or other government agency.
  7. Secretary's Certificate on no pending case of intra-corporate dispute.


# Documentary Requirements for Increase of Authorized Capital Stock via Stock Dividend


1. Cover sheet
2. Certificate of Increase of capital stock
3. Treasurer's Affidavit certifying the increase of capital stock, the amount subscribed and the amount received as payment thereto
4. Amended articles of incorporation (Article VII)


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5. Directors Certificate- a notarized document signed by majority of the directors and the Corporate Secretary certifying the amendment of the Articles of Incorporation increasing the ACS, the majority vote of the directors and the stockholders representing two-thirds( $2/3$ ) of the outstanding capital stock, and date and place of the stockholders meeting.
  6. Notarized Secretary's Certificate on no pending case of intra-corporate dispute.

## B. ADDITIONAL REQUIREMENTS

1. List of stockholders of record as of the date of meeting approving the increase, indicating their nationalities and their respective subscribed and paid-up capital on the present authorized capital stock certified under oath by the Corporate Secretary or Secretary's Certificate indicating the total no. of shares subscribed, amount subscribed and paid as of the stockholders meeting approving the increase and the percentage of foreign equity before the increase and likewise state that the stock dividend will be allocated pro-rata to the stockholders( if the applicant is a listed company)

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2. List of stockholders entitled to stock dividend with their respective outstanding shares and the allocation of stock dividend certified by the Corporate Secretary.
  3. Audited financial statements as of the last fiscal year stamped received by BIR and SEC.
  4. Audited financial statements used as the basis of such dividend declaration (if the basis is other than item No.3)

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5. Undertaking under oath by a company officer stating that in the event that the retained earnings at year end is not sufficient to cover the stock dividend under consideration, any deficiency will be replaced by other form of payment allowable by the Commission(if the basis is item No. 4

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6. Certification by the Corporate Secretary as to the treatment of fractional shares, if any
  7. Reconciliation of retained earnings for dividend declaration in accordance with SEC Memorandum Circular No.11 Series of 2008
  8. Notarized Secretary's Certificate on the reversal of appropriated retained earnings, if necessary
  9. Clearance from other department or other government agency, if necessary

*Example of stock dividend allocation applied as payment for subscription to increase in capital stock:*

**ABC CORPORATION** has an increased in authorized capital stock from **P100,000** divided into **1,000** shares at **P100** par value to **P600,000** divided into **6,000** shares at **P100** par value, of the net increase of **P500,000** divided into **5,000** shares, the amount of **P125,000** divided into **1,250** shares has been subscribed and fully paid. Assuming the company has an unappropriated retained earnings of **P150,000** sufficient to cover the stock dividend declaration of **P125, 000**.




List of stockholders as of _____.				ALLOCATION	
Name	Nationality	No. of shares subscribed	Amount Subs & Paid	Name	Stock Dividend
A	Fil	160	P 16,000	A	250
B	Fil	160	16,000	B	250
C	Fil	160	16,000	C	250
D	Fil	160	16,000	D	250
E	Fil	160	16,000	E	250
Outstanding		800	P 80,000		
Treasury shares		200	20,000		
TOTAL		1,000	P 100,000	TOTAL	1,250


**Formula:** Individual Subs./Outstanding shares x stock div. = allocated stock div.

**160/800 x 1,250 = 250 shares x P100 par value = P 25,000**

# Documentary requirements for Property Dividend

1. Cover sheet
2. Certification under oath by the Corporate Secretary on the board of directors resolution declaring the property dividend
3. Audited financial statements as of the last fiscal year stamped received by BIR and SEC


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4. List of stockholders with their respective subscribed capital stock as of the date of meeting approving the declaration of property dividend together with the allocation of the property dividend certified under oath by the Corporate Secretary
  5. Detailed schedule of the property account appearing in the audited financial statement certified by Company Accountant.

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6. Certification by the President that the property is no longer needed in the operation of the company
  7. Reconciliation of retained earnings available for dividend declaration
  8. Notarized Secretary's Certificate on no pending case involving intra-corporate dispute
  9. Clearance from other departments or other government agency

# RULES REGULATING THE ISSUANCE OF PROPERTY DIVIDENDS


**Section 1** – All corporations that have declared and/or issued property dividends in accordance with the provisions of the Corporation Code of the Philippines shall send notice of such dividends within thirty (30) days from the date of the declaration thereof.


The notice of the declaration and/or issuance of the property dividends shall show, in scheduled form, the nature of property declared dividends, their individual book value, market value, if any, and the manner in which such property shall be distributed to the stockholders.



**Section 2** – The issuance of the property dividends shall conform with the following conditions:

**a)** That the property to be distributed as dividends shall consist only of property which are no longer intended to be used in the operation of the business of the corporation and which are practicable to be distributed as dividends;


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- b)** That the issuance of the property dividends shall not result in an inequitable distribution of property to the stockholders in terms of the book values and market values, if any, of the property distributed; and
  - c)** That when the distribution of dividends is made where some stockholders will receive cash and the others will receive property, the prevailing market value of the property, as agreed upon by the stockholders shall be considered in determining the equitable distribution of the total dividends.



**Section 3** – No property dividends in the form of land shall be issued to a foreign individual or foreign-owned corporation which will violate the provision of the constitution of the Philippines on land ownership.


**Section 4** – No actual distribution of property dividends shall be made unless approved by the Commission.







**Section 5** – The issuance of property dividend shall be supported by the following:

- a)** Board resolution approving the issuance of property dividend.
- b)** List of stockholders (certified by the corporate secretary) as of record date showing the corresponding subscription of each stockholder and the allocation of the proposed dividend.

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- c)** Audited financial statements as of the fiscal year prior to the declaration of property dividend
  - d)** Detailed schedule of the property account, (certified by the company accountant), which shall include the property to be distributed as dividend, showing the cost and the book value of the property as of the date coinciding with the aforesaid audited financial statements.



**e)** When the distribution of dividend involves property and cash, such that some stockholders will receive property and the others will receive cash, the detailed schedule of the value of property as agreed upon by the stockholders.



**Section 6** – Any violation of these rules shall be penalized by a fine of 1/10 of 1 per centum of the amount declared as dividend but not less than Two Thousand (P2,000.00) Pesos and such other sanctions as provided for under Section 144 of the Corporation Code of the Philippines.