

ACCOUNTING TREATMENT OF DIVIDENDS DISTRIBUTED DURING A FINANCIAL YEAR

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***Abstract:** The present paper deals with a series of theoretical and practical aspects regarding the accounting regime for the profit distributed on dividends during the fiscal year, being also called interim dividends. Law no. 163/2018, allows shareholders / associates of a company to withdraw dividends at quarterly frequency only after the preparation of interim financial statements at the end of each quarter (31 March, 30 June, 30 September, 31 December). These are special purpose financial statements and are intended for the distribution of dividends during the financial year. In the General Accounts Plan the account 463 "Receivables from dividends distributed during the financial year" has been entered and records the dividends which will be adjusted after the approval of the annual financial statements of the company.*

***Keywords:** accounting, interim financial statements, accounting operations, interim dividends, account 463.*

***JEL classification:** M40.*

I. Introduction

According to the Romanian legislation, companies have the possibility, since the third quarter of 2018, to allocate dividends quarterly during the financial year, not just once a year, as it was until then. Companies that opt for dividend distributions on a quarterly basis may divide the profit achieved each quarter on the basis of the shareholders decision and the interim financial statements drawn up every three months (quarterly).

The dividends are distributed to the associates in proportion to the share of the paid-up share capital, optionally quarterly based on the interim and annual financial statements, after the adjustment made in the annual financial statements, unless otherwise provided in the Articles of Incorporation. They may be paid on an optional quarterly basis within the time limit set by the general meeting of shareholders or, as the case may be, by special laws, adjusting the differences resulting from the distribution of

dividends during the year to be made through the annual financial statements¹.

Companies that, according to the accounting regulations in force, have opted for the quarterly distribution of dividends are required to prepare **interim financial statements**. These are made up of the balance sheet and the profit and loss account, having the same structure as that applicable to the annual financial statements prepared according to the provisions of OMFP no. 1802/2014.

Interim financial statements are prepared using the accounting policies applied by the entity at the date of their preparation and are accompanied by significant accounting policies.

For the purpose of preparing the interim financial statements, the entities that have opted for the quarterly distribution of dividends shall carry out an inventory of items such as assets, liabilities and equity. Inventory results² made in accordance with legal provisions are highlighted in the entity's accounting.

The inventory presents the preliminary work, which establishes the real situation of the patrimony, which relates both to the factual assessment of the patrimonial elements and to their evaluation at the level of the present value.

It is not possible to conceive the financial statements and it is not possible to determine the financial position, the performance of the economic entity and the changes in the financial position at a certain time and for a certain period of time, without first doing the inventory of the company's assets and liabilities. Only through a realistic balance sheet the entrepreneur can orient and maintain its position in an economy defined by the variation in the selling prices and the purchasing power of the money³.

The preparation of the interim financial statements is based on the verification of the balance sheet in which the inventory results are included.

Interim financial statements⁴ are drawn up in Romanian and in the national currency and are signed by the legal persons which will include:

1According to art. 67 paragraph (2) of the Companies Law no. 31/1990, republished, as subsequently amended and supplemented.

2Order of the Minister of Public Finance no. 2,861 / 2009 for the approval of the Norms regarding the organization and performance of the inventory of items such as assets, debts and equity

3Miculescu Marius Nicolae *Financial accounting in tourism trade services* Eurostampa publishing house 2015 Timișoara, p.119.

4According to art. IV from OMFP no. 3.067/2018

- the name and forenames of the person who drew them, written down clearly;
- his quality (economic director, chief accountant or other person appointed by written decision of the administrator, authorized by law, member of the Body of Chartered Accountants and Authorized Accountants of Romania);
- registration number in the professional body, if applicable.

Within 30 days of their approval by the shareholders, the interim financial statements will be submitted to the territorial units of the Ministry of Public Finance.

II. The accounting treatment of dividends distributed during the financial year

Quarterly distribution⁵ of earnings to shareholders or associates may be made optionally during the financial year, up to quarterly net profit, plus any retained earnings and amounts withdrawn from reserves available for that purpose. From these any losses will be deducted and the amounts deposited in reserves in accordance with legal or statutory requirements, respectively on the interim financial statements approved by the general meeting of the shareholders or associates, as the case may be.

The distribution of profit is recorded in the accounts by destination after approval of the annual financial statements. Amounts relating to interim dividend distributions are recorded in the accounting and are reflected in the interim financial statements as receivables from shareholders and associates respectively.

Interim dividends accounting

Entities that have opted to receive dividends during the year have at their disposal account 463 "Receivables from dividends distributed during the financial year" which are used to record these dividends and are to be settled after approval of the annual financial statements. Its function is as follows:

⁵According to art. 19 alin. (31) from Accounting law no. 82/1991.

463 „Receivables representing dividends distributed during the financial year”

Debit	Credit
- the amount of dividends distributed during the financial year(acct.456)	- Amount of dividends distributed during the financial year and regularized on the basis of annual dividends(acct.457) - the amount of the collected sums representing dividend reimbursements due, according to the law(acct.512 andacct. 531)
SD = the amount of dividends distributed during the year, according to the shareholders decision	

At the end of the year when the annual financial statements are prepared, two situations can be encountered:

1. When the amount of dividends Interim Agreement is less than the total dividends due to end.
2. When the amount of interim dividends is greater than the total dividend payable at the end of the year.

1. Interim dividends are less than the total annual dividends

Cantim Travel decides to give its two associates, A and B, resident individuals, dividends in amount of 90,000 lei in the first quarter of 2019, 90,000 in the second quarter / 2019 90,000 lei in quarter III / 2019. Associate A holds 85 % of the share capital, and associate B, 15 %. The dividends are paid on 15.04.2019 for the first quarter, 15.07.2019 for the second installment and 15.10.2019 for the third installment . At the end of the financial year 2019 , the entity records a net result for the whole year of 350,000 lei, which, according to the shareholders decision, will be fully distributed to dividends. The difference of 80,000 lei (350,000 lei - 270,000 lei) is recorded in the accounts and paid to the two associates in January 2020.

Next, we present the accounting treatment of dividends distributed and paid to the two associates.

– On **31 March** 2019, the recording in the accounts of dividends granted on the basis of the interim financial statements of the result recorded in the first three months of 2019:

76.500	463.A "Claims representing dividends distributed during the financial year"	=	456.A „Shareholders / associates - Amounts receivable related to capital"	76.500
13.500	463.B "Claims representing dividends distributed during the financial year"	=	456.B „Shareholders / associates - Amounts receivable related to capital"	13.500

– On **April 15, 2019**, withholding tax on distributed interim dividends:

Dividends in the amount of **90,000 lei** distributed to the two associates and paid to them are taxed at source by applying **the 5% share of the gross income obtained**. The Romanian legal person who pays dividends is obliged to withhold, declare and pay the dividend tax to the state budget until 25 April 2019, up to which he submits the form 100 "Statement of payment obligations to the state budget". For the two associates, the income payer must declare the withholding tax by submitting Form 205 "Statement of source tax deduction, gambling revenue and investment gains / losses per income beneficiary" by 31 January 2020 for dividends distributed in 2019.

3.825	% 456.A Shareholders / associates - Amounts receivable related to capital	=	446 Other taxes and duties	4.500
675	456.B Shareholders / associates - Amounts receivable related to capital	=		

– In **15.04.2019**, paying the interim dividends:

72.675	% 456.A Shareholders / associates - Amounts receivable related to capital	=	5121 Accounts in banks in lei	85.500
12.825	456.B Shareholders / associates - Amounts receivable related to capital	=		

– In **25.05.2019**, the payment of interim dividend tax:

4.500	446 Other taxes and duties	=	5121 Accounts in banks in lei	4.500
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– In **30/06/2019**, recording of dividends provided based on interim financial statements result in the **second quarter** of 2019:

76.500	463.A "Claims representing dividends distributed during the financial year"	=	456.A „Shareholders / associates - Amounts receivable related to capital"	76.500
13.500	463.B "Claims representing dividends distributed during the financial year"	=	456.B „Shareholders / associates - Amounts receivable related to capital"	13.500

– On **15.07.2019**, withholding tax on distributed interim dividends:

3.825	% 456.A Shareholders / associates - Amounts receivable related to capital	=	446 Other taxes and duties	4.500
675	456.B Shareholders / associates - Amounts receivable related to capital	=		

– On **15.07.2019**, paying the interim dividends:

72.675	% 456.A Shareholders / associates - Amounts receivable related to capital	=	5121 Accounts in banks in lei	85.500
12.825	456.B Shareholders / associates - Amounts receivable related to capital	=		

– On **25.08.2019**, the payment of interim dividend tax:

4.500	446 Other taxes and duties	=	5121 Accounts in banks in lei	4.500
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– In **30.09.2019**, recording of dividends provided based on interim financial statements result in the **third quarter** of 2019:

76.500	463.A "Claims representing dividends distributed during the financial year"	=	456.A „Shareholders / associates - Amounts receivable related to capital"	76.500
13.500	463.B "Claims representing dividends distributed during the financial year"	=	456.B „Shareholders / associates - Amounts receivable related to capital"	13.500

– On **15.10.2019**, withholding tax on distributed interim dividends:

3.825	% 456.A Shareholders / associates - Amounts receivable related to capital	=	446 Other taxes and duties	4.500
675	456.B Shareholders / associates - Amounts receivable related to capital	=		

– On **15.10.2019**, paying the interim dividends:

72.675	% 456.A Shareholders / associates - Amounts receivable related to capital	=	5121 Accounts in banks in lei	85.500
12.825	456.B Shareholders / associates - Amounts receivable related to capital	=		

– On **25.11.2019**, the payment of interim dividend tax:

4.500	446 Other taxes and duties	=	5121 Accounts in banks in lei	4.500
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In **October 2019** the situation of the synthetic **account 463** is as follows:

463 „Receivables representing dividends distributed during the financial year"			
Debit		Credit	
31.03.2019		90.000	
30.06.2019		90.000	
30.09.2019		90.000	
SFD		270.000	

– Reconciliation of the amounts paid out as dividends after approval of the annual financial statements:

- Regularization of the differences resulting from the distribution of dividends during the year 2019 is made through the annual financial statements.
- The net result for the financial year 2019 is 350,000 lei, so the total dividends due to the two associates for the whole year 2019 exceeds the level of those granted in the interim. The entity decides that the dividend of RON 80,000 (350,000 - 270,000) will be paid to the two associates in March 2020. According to art. 67 paragraph (2) of the Company Law, the payment of the differences resulting from the regularization shall be made within 60 days from the date of approval of the annual financial statements for the end of the financial year. Otherwise, the company owes after this term penalty interest⁶ calculated according to the law, if by the constitutive act or by the decision of the general meeting of the shareholders approving the financial statements of the concluded financial year no higher interest was established.

– Based on the decision of the General Meeting of Shareholders, the dividend distribution of the annual net profit in the amount of 350,000 lei:

350.000	117 Reported result	=	% 457.A Dividends to be paid	297.500
		=	457.B Dividends to be paid	52.500

– Retention of dividends distributed on December 31, 2019:

229.500	457.A Dividends to be paid	=	463.A "Claims representing dividends distributed during the financial year"	229.500
40.500	457.B Dividends to be paid	=	463.B "Claims representing dividends distributed during the financial year"	40.500

⁶Art.3 of Government Ordinance no. 13/2011 on the legal interest payable and penalizing for money obligations, as well as for the regulation of financial-fiscal measures in the banking field.

In December 2019 the situation of the synthetic **account 463** is as follows:

463 „Receivables representing dividends distributed during the financial year”			
Debit		Credit	
31.03.2019	90.000		
30.06.2019	90.000		
30.09.2019	90.000		
		31.12.2019	270.000
SFD	0		

– Withholding the 4000 lei tax on the dividend dividend due to the shareholders (350,000 lei - 270,000 lei) x 5% = 4000):

3400	% 457.A Dividends to be paid	=	446 Other taxes and duties	4000
600	457.B Dividends to be paid	=		

– In March 2019, payment of the net dividends to shareholders:

64.600	% 457.A Dividends to be paid	=	5121 Accounts in banks in lei	76.000
11.400	457.B Dividends to be paid	=		

– On 25.04.2019, payment of the dividend tax difference, amounting to 4000 lei:

4.000	446 Other taxes and duties	=	5121 Accounts in banks in lei	4.000
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2. Interim dividends are HIGHER than the annual dividends

Cantim Travel decides to give its two associates, A and B, resident individuals, dividends in amount of 90000 lei in the first quarter of 2019, 90000 in the second quarter / 2019 90000 lei in quarter III / 2019. Associate A holds 85 % of the share capital, and associate B, 15 %. The dividends are paid on 15.04.2019 for the first quarter, 15.07.2019 for the second installment and 15.10.2019 for the third installment. At the end of the financial year 2019, entity X records a **net result** for the whole year of RON 250,000 , which, according to the shareholders decision, will be fully distributed to

dividends. The difference of -20,000 lei (250.000 lei – 270.000 lei) are accounted for and recovered from the two two partners in March 2020.

The recording in the accounts of the dividends granted on the basis of the interim financial statements of the registered result is the same as presented at point 1, thus we will present the accounting for the difference of -20.000 lei between the net profit realized and the distributed dividends:

Dividends distributed and paid in excess in the financial year 2019 shall be reimbursed within 60 days from the date of approval of the annual financial statements. A restitution bail must be made for those who have received dividends on a quarterly basis, and the management of the company must seek to recover the sums in question and have the necessary measures to that end.

– Based on the shareholders resolution, the dividend distribution of the annual net profit in the amount of 250,000 lei:

250.000	117 Rezultat reportat	=	% 457.A Dividends to be paid	212.500
		=	457.B Dividends to be paid	37.500

– Retention of dividends distributed as of December 31 , 2019:

212.500	% 457.A Dividends to be paid	=	463.A "Claims representing dividends distributed during the financial year"	212.500
37.500	457.B Dividends to be paid	=	463.B "Claims representing dividends distributed during the financial year"	37.500

At this moment, the debit of account 463 is in amount of 20,000 lei, the difference between the dividends distributed inwardly and those due for the entire financial year, recently completed. The two associates are obliged to reimburse the dividends received in addition.

In December 2019 the situation of the synthetic **account 463** is as follows:

463 „Receivables representing dividends distributed during the financial year”			
Debit		Credit	
31.03.2019	90.000		
30.06.2019	90.000		
30.09.2019	90.000		
		31.12.2019	250.000
SFD	20.000		

Thus, the gross paid dividends are in the amount of -20 .000 lei, out of which:

- 1000 lei is the tax on retained dividends;
 - 19000 lei is the net dividend paid in exces
- Correction of the quarterly distributed dividends:

- 17.000	463.A "Claims representing dividends distributed during the financial year"	=	456.A Shareholders / associates - Amounts receivable related to capital	-17.000
- 3000	463.B "Claims representing dividends distributed during the financial year"	=	456.B Shareholders / associates - Amounts receivable related to capital	- 3000

After this operation the situation of the synthetic **account 463** is as follows:

463 „Receivables representing dividends distributed during the financial year”			
Debit		Credit	
31.03.2019	90.000		
30.06.2019	90.000		
30.09.2019	90.000		
		31.12.2019	250.000
31.12.2019	-20.000		
SFD	0		

- Correction of the tax paid on dividends distributed quarterly:

- 850	% 456.A Shareholders / associates - Amounts receivable related to capital	=	446 Other taxes and duties	- 1000
- 150	456.B Shareholders / associates - Amounts receivable related to capital	=		

- Cashing in the bank account of the amounts received in addition by the associates:

19000	5121 Accounts in banks in lei	=	% 456.A Shareholders / associates - Amounts receivable related to capital	17.000
		=	456.B Shareholders / associates - Amounts receivable related to capital	3.000

III. Conclusion

Following the case study, we consider that it is necessary to draw up a procedure applicable to the interim distribution of dividends, which must be approved by the General Assembly of the Associates and must be performed by the company's manager. The procedure should detail the flow of the operations carried out, their accounting at the level of the concerned entity, the list of necessary supporting documents and the responsibilities of the persons involved. The administrator must ensure that the developed procedure is applied in a competent and consistent manner.

References

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