

DIVIDENDS DISTRIBUTION SURPLUS



vEcoSys

What does it mean when we say that dividends can be paid out of distributable surplus?

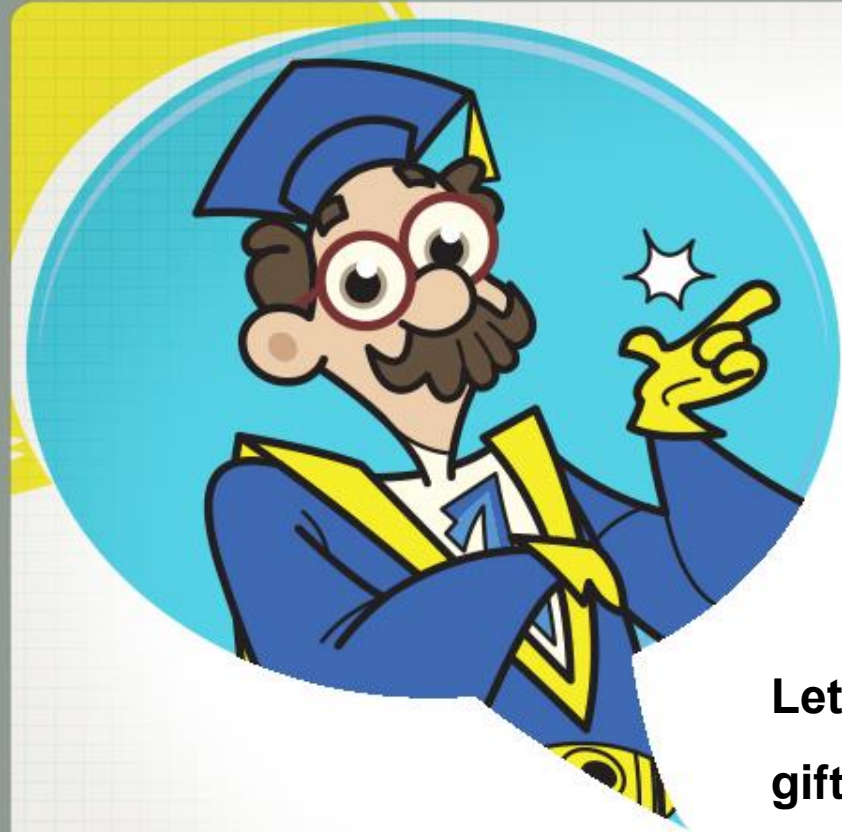


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Let me answer this question
with the help of an example



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Let's say there is fruit bearing tree gifted to me. The owner of the tree has set one condition. He says that I can earn only from the produce of the tree?



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Bikas was a “Bhelpuriwala” in Mumbai. He would sell Bhel at Marine Drive. Every day he would buy the ingredients worth Rs 1000 to prepare his “Bhel”. By the end of the day he would sell all his stuff for Rs 1200 thereby pocketing Rs 200 for a day’s efforts



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Thus from the perspective of day, his topline is Rs 1200 while his bottom line is Rs 200.

Thus the aggregation of “price” of the product comprises the “top-line” whereas the aggregation of “profits” comprise the “bottom-line”



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Which means that I cannot cut the branches of the trees and sell the wood in the market.



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So what can I do

**I can water the tree,
nurture it so that
it bears fruits**

**Now I can certainly
sell the fruits
in the market**

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These two visuals tell the story



This tree needs to be nurtured



**The fruits of this tree
could be sold for a profit**



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Similarly SEBI has mandated that dividends should be declared only out of the profits. The profits that a fund earns is called “distributable surplus”



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Hope you now understand what it means when we say that dividends can be paid only out of the distributable surplus



Thinking of Investment

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