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Unit- 2

SHARE CAPITAL

BASIC TERMS WITH CONCEPT

MEANING OF SHARE CAPITAL

The Joint Stock Company is a big form of business organization. The amount required by the company for its business activities is raised by the issue of shares. The amount so raised is called ‘Share Capital’ (or capital) of the company. It may be noted that a company limited by shares will have share capital. A company limited by guarantee or an unlimited company may not have any share capital. The persons who buy the shares of company are called ‘Shareholders’.

NATURE OF SHARE CAPITAL

(i) In the case of Company, Capital means share capital, because in the Companies Act, the word ‘Capital’ is qualified by the word ‘share’.

(ii) The persons who contribute capital to the company are known as shareholders.

(iii) The numbers of shareholders are very large, so a separate capital account cannot be opened for each one of them. Size of share capital depends on the size of the company.

(iv) Hence, there is one consolidated account called as Share Capital Account.

TYPES OF SHARE CAPITAL

1. Registered, Authorised or Nominal Capital:

The Memorandum of Association of every company has to specify the amount of capital with which it wants to be registered. The capital so stated is called Registered, Authorized or Nominal Capital. The Registered Capital is the maximum amount of share capital which a company can raise by way of public subscription.

2. Issued Capital:

The company may not issue the entire authorised capital at once. It goes on raising the capital as and when the need for additional fund is felt. So, issued capital is that part of Authorised/Registered or Nominal Capital which is offered to the public for subscription in the form of shares.

3. Unissued Capital:

The balance of nominal capital remaining to be issued is called Unissued Capital.

4. Subscribed Capital:

It is that part of “issued capital” for which applications are received from the public. The subscribed capital is allotted to the respective subscribers as per resolution passed by the directors of the company.

5. Called up Capital:

It is that part of subscribed capital which has been called up by the company. A company does not call at once the full amount on each of the shares it has allotted and therefore, calls up only such amount as it needs.

6. Uncalled up Capital:

It is the uncalled portion of the allotted capital and represents contingent liability of the shareholders on the shares.

7. Paid up Capital:

It is that part of called up capital against which payment has been received from the members on their respective shares in response to the calls made by the company.

8. Reserve Capital or Reserve Liability:

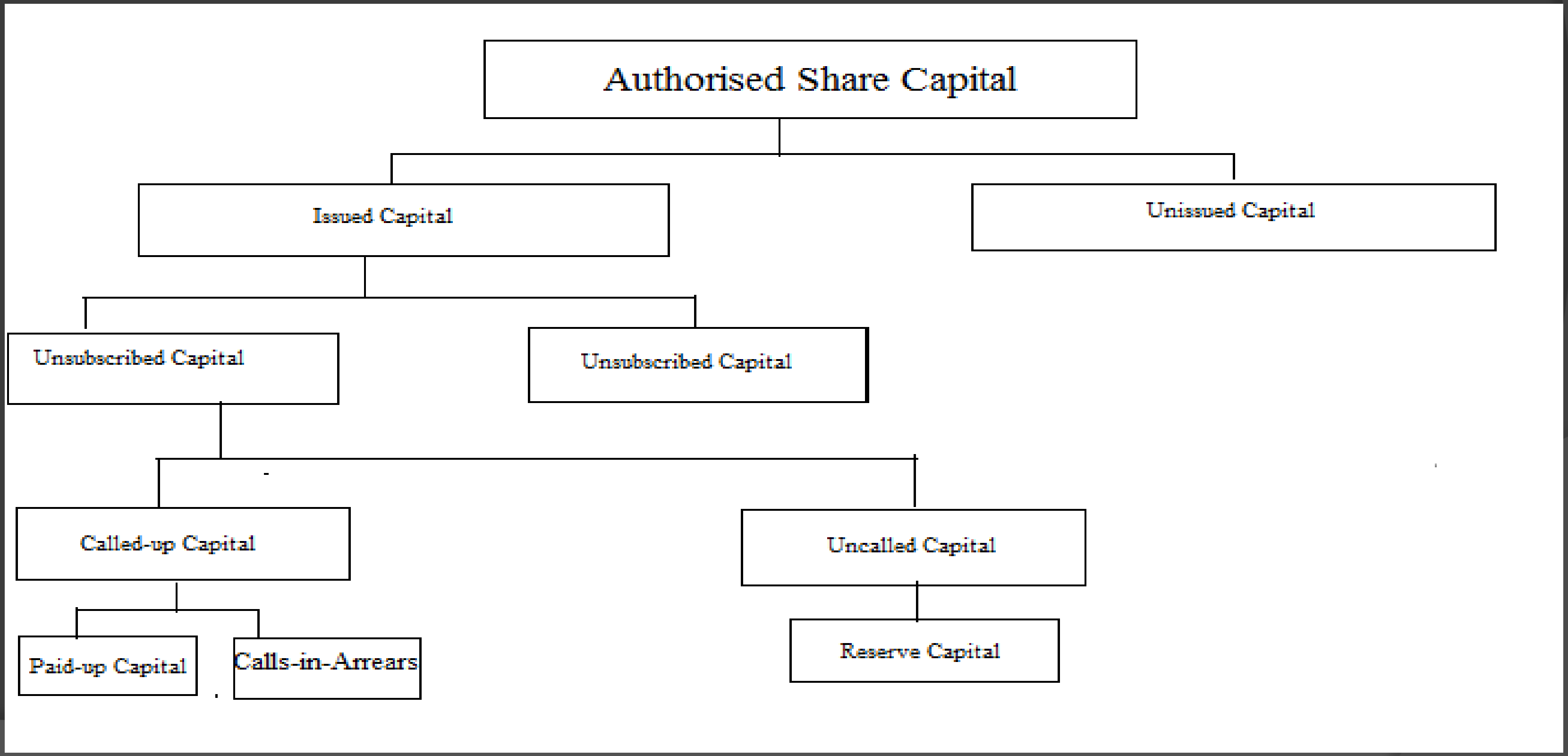
By Reserve Capital we mean that amount which is not callable by the company except in the event of the company being wound up. The company cannot demand the payment of money on the shares to that extent during its life time. Reserve capital may be created by means of a special resolution passed by the company in its General Meeting by three-fourths majority of those voting on it. When once the Reserve Capital has been so created the company cannot alter its Articles of Association so as to make the reserve liability available at any time. It cannot be cancelled at the time of reduction of capital.

9. Fixed Capital:

The fixed capital of a company is what the company retains in the shape of fixed assets such as land and buildings, plant and machinery, furniture, etc.

10. Circulating Capital:

The circulating capital is a part of subscribed capital which is circulated in business in the form of using goods or other assets such as book debts, bill receivables, cash, bank balance, etc.



MEANING OF SHARE

The capital of a company is divided into unit of small denomination. Each unit is called a share. The word share implies an unit of share capital having property rights. In fact, share is one of a number of titles of ownership in a company. According to Section 2(84) of the Companies Act, 2013, “share means a share in the share capital of a company and includes stocks”. A company may divide its capital into shares of □ 1, □ 10, □ 50 or □ 100 or any suitable amount. Thus, a share in a company is one of the units into which the total capital of the company is divided.

NATURE OF SHARES

(i) A share represents of fractional part of the share capital of the company.
(ii) It is an expression of proprietory relationship between a shareholder and the company. In other words, it is the basis of ownership of a company.
(iii) Shares are movable property and are transferable in the manner specified by the articles.

TYPES OR CLASSES OF SHARES

SHARES

Preference Shares

Equity Shares

(1) Preference Shares:- According to Sec.43(b) Preference shares are those shares on which there is preferential right as (a) to dividend during the life time of the company, (b) to repayment of capital on the winding-up of the company, before the capital of equity shareholders is returned. They carry a fixed rate of dividend payable out of each year's profits in priority to equity shareholders. In addition to the two rights cited above, preference shares may have additional rights, depending upon the terms of issue, which are either defined in the Articles of Association or in the Prospectus of the Company.

Features of Preference Shares

(i) It has preferential rights to dividends at a fixed rate.

(ii) It has cumulative rights to dividends.

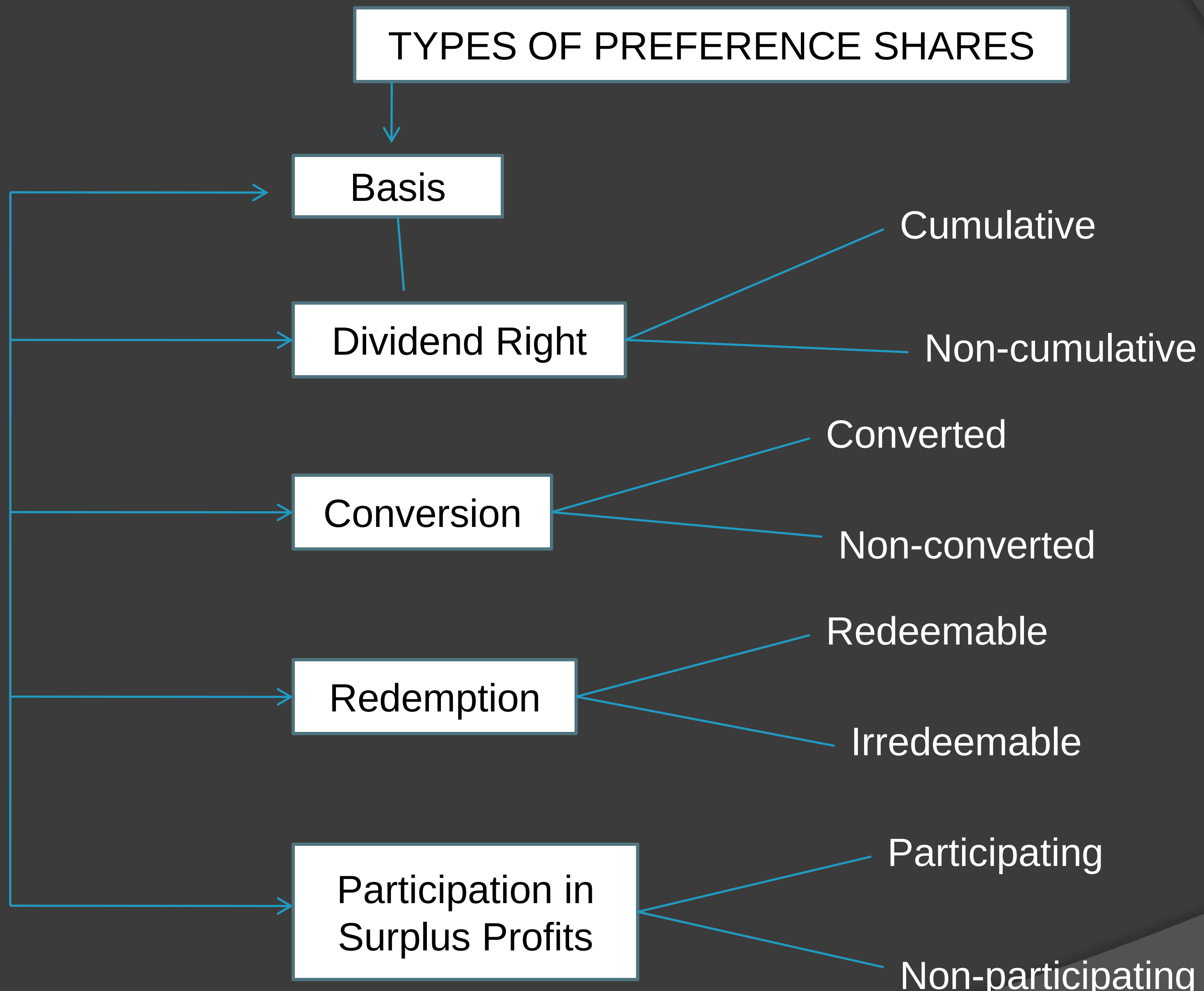
(iii) It has preferential rights to get refund of capital before that of equity shares in the case of winding-up.

(iv) Preference shareholder have no voting rights.

(v) It has right to participate in the extra profit when a specified dividend has been paid on the equity shares. Or right to premium at the time of redemption.

(vi) It can be redeemed before the expiry of 20 years from the date of issue.

(vii) It can be bought or sold in a stock exchange.


TYPES OF PREFERENCE SHARES
Basis
Dividend Right
Cumulative
Non-cumulative
Conversion
Converted
Non-converted
Redemption
Redeemable
Irredeemable
Participation in Surplus Profits
Participating
Non-participating

(2) Equity Shares:- Equity shares are those shares which are not preference shares. The holders of such shares are entitled to a dividend or share in the property after the preference shares are paid. So equity shares are common shares.

Equity is the risk capital of a company. Normally, the equity shareholders control the affairs of the company and have right to all the profits after the preference dividend to be paid to the equity shareholders. This may vary from year to year. Such shareholders may go without any dividend if no profits is made. Therefore, the share capital raised through equity shares is called as 'Risk Capital'. As per Company Law, A company can also issue equity shares with differential voting rights and differential dividend rights.

Features Of Equity Shares

(i) It is the risk capital of the company.

(ii) It can be bought and sold in a stock exchange.

(iii) It cannot be redeemed during the life-time of the company.

(iv) Equity shareholders have right to vote in the election of directors.

(v) Equity shareholders can participate in the profits of a company.

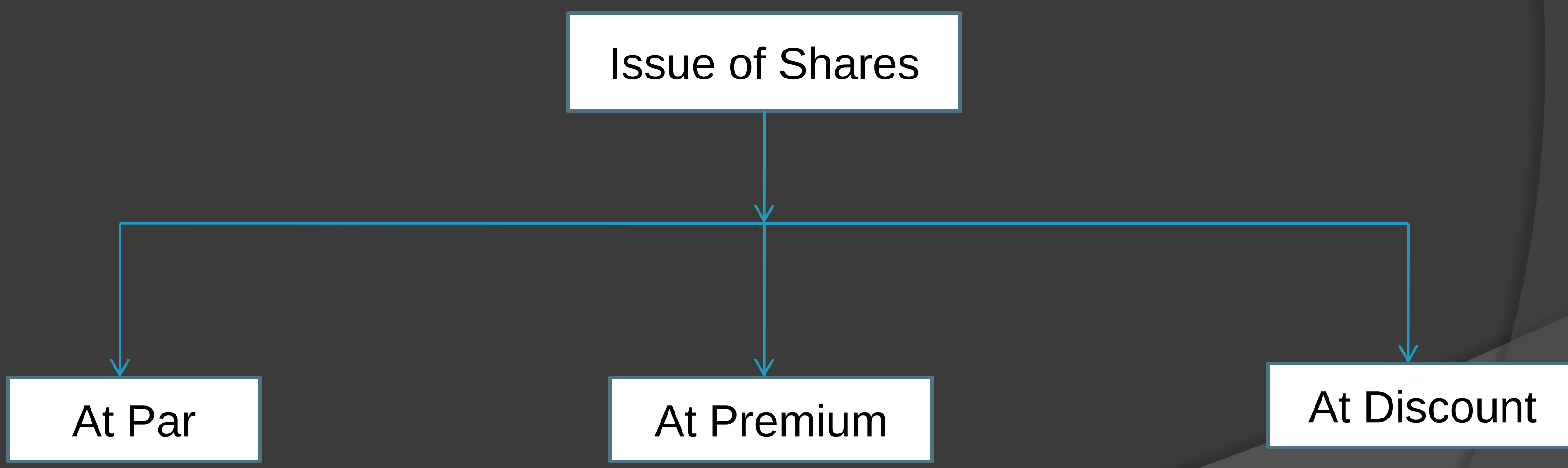
Difference Between Preference Shares and Equity Shares

Basic of Difference	Preference Share	Equity Shares
1. Right of Dividend	Preference shares have preferential right to get dividend. They get dividend before any dividend is paid to equity shares.	Dividend on equity shares is paid after the payment of preference dividend and that too, if there is surplus.
2. Rate of Dividend	The rate of dividend on preference shares is fixed.	The rate of dividend is not fixed in case of equity shares.
3. Refund of Capital	In case of winding-up of the company preference shareholders enjoy the right to get their capital back before the capital is returned to equity shareholders.	In case of winding-up of the company equity share capital is refund only after the payment of the preference share capital
4. Voting Right	Preference shareholders can vote only in special circumstances.	Equity shareholders have full right to vote in all circumstances.

5. Participation in Management	Preference shareholder have no right to participate in management of the company.	Equity shareholder have full right to participate in the management of the company.
6. Arrears of Dividends	In case of cumulative preference shares arrears of dividends are accumulated.	Accumulation of arrears of dividend on equity shares does not arise.

ISSUE OF SHARES

Price of Shares:- When a public limited company is incorporated, it takes necessary steps to obtain the required capital.
For this purpose, the company issues a prospectus inviting the public to subscribe its shares. The terms and condition of the issue of share are started in the prospectus.
Shares can be issued at par, at premium or at discount.



Shares Issued at Par : When shares are issued at their face value, they are said to be issued at par. For example, when shares of □ 10 each (face value) are issued at □ 10 only or shares of □ 100 each at □ 100 only, these are said to be issued at par (that is, face value).

Shares Issued at Premium [Section 52] : When shares are issued at a price above their nominal or face value, they are said to be issued at premium. For example, when shares of □ 100 (face value) are issued at □ 110, it is said that the shares have been issued at premium. Here □ 10 (□ 110-100) is premium. “Premium’ is capital profit of the company.

Shares Issued at Discount : When shares are issued at less than their face value or nominal value, they are said to be issued at discount. The amount by which the market price or issue price of share is below its nominal face value is called “discount on issue of share.” For example, when a □ 10 share is issued at □ 9 or a share of □ 100 is issued at □ 95, it is said to be a discount of $1 (or 10%) and □ 5 (or 5%) respectively. When shares are issued at a discount, the company incurs loss. So, this discount is debited to “Discount on Issue of Shares Account.

Normally, a Company cannot issue shares at discount.