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Concept of Share Capital

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ABSTRACT: This paper gives the idea about the share capital of companies. How companies raises their capital through issuing shares. It tells us about the different types of shares and how they issue. Understand the concept of Share capital and its types and its process in simple word. Share capital is the foundation of corporate sector .without share capital company cannot achieve its goals. In modern time corporate sector have wide area so wide area required wide capital for business. Share is solution for this matter. Loan is also option for borrow money but share give ownership
KEYWORDS: Meaning and types of share capital and shares, issue of share capital.

I. INTRODUCTION:

In modern life business nature converts firm to company. A firm and partnership manage by one or two person but company require huge man power and huge money power. Company give to opportunity to public and invest his saving in company via share. Share is just part of capital. when a person invest in share its called shareholder. Company give ownership via purchasing of share. Generally shareholder is really owner company. Share is most useful concept for every person and country because in this time measurement for development base on GDP and GDP also known as Gross domestic product is also connected to company. So share is really important for company sector.

❖ Meaning of share capital

Share capital is the most common way of determining the ownership of a company. In relation to a company limited by share capital, the share capital will be issued to the shareholders when the company is first set up. However, further share capital can be issued at a later date if necessary. Share capital is the money a company raises by issuing comimon or preferred stock. The amount of share capital or equity financing a company has can change over time with additional public offerings. The term share capital can mean slightly different things depending on the context. Accountants have a much narrower definition and their definition rules on the balance sheets of public companies. It means the total amount raised by the company in sales of shares.

❖ Types of Share Capital

Share capital of a company can be divided into the following different categories:

➢ **Authorized, registered, maximum or nominal capital** Every company has to specify the amount of capital it wishes to register within its Memorandum of Association. The amount thus stated is termed as registered, authorised or nominal capital. Fundamentally, it is the amount of money a company is allowed to raise through public subscription. Its size can be increased or decreased as per requirement by meeting the prescribed method.

➢ **Issued capital**

It makes up that part of the nominal capital which is offered for public subscription in form of shares. It must be noted that a company may refrain from issuing the entire registered capital at a single go. Based on their requirement, a company may raise this capital from time to time.

➢ **Un-issued capital**

The part of authorized capital not offered for subscription to the public is known as 'un- issued capital'.

➢ **Such capital can be offered to the public at a later date Subscribed Capital**

It cannot be said that the entire issued capital will be taken up or subscribed by the public. It may subscribe in full or in part. The part of issued capital, which is subscribed by the public, is known as subscribe capital.

- **Un-subscribed capital**

The part of capital which is not subscribed by the general public is known as un-subscribed capital

- **Called-Up Capital**

It is that part of subscribed capital, which is called by the company to pay on shares allotted. It is not necessary for the company to call for the entire amount on shares subscribed for by shareholders. The amount, which is not called on subscribed shares, is called **un-called capital.**

- **Paid-up Capital**

It is that part of called up capital, which actually paid by the shareholders. Therefore it is known as real capital of the company. Whenever a particular amount is called and a shareholder fails to pay the amount fully or partially, it is known an **unpaid calls or calls in arrears.**

Paid-up Capital = Called up capital - calls in arrears

- **Reserve Capital**

It is that part of uncalled capital which has been reserved by the company by passing a special resolution to be called only in the event of its liquidation. This capital cannot be called up during the existence of the company. It would be available only in the event of liquidation as an additional security to the creditors of the company.

Meaning of shareholder: A person who buy the shares of joint stock company is called shareholder.

❖ **Joint stock company**. :

According to Lord Justice Lindley "an association of many persons who contribute money or money's worth to a common stock and employed it in some trade or business and who share the profit or loss arising there from. The common stock so contributed is denoted

in money and is the capital of the company. The persons who contributed it or whom it belongs are members. The portion of capital to which each member is entitle d is his share. The shares are always transferable although the right to transfer them may be restricted". From the above definition it is clear that, a company is an incorporated association, which is an artificial person created by law, having an independent legal entity, with capital divisible into transferable shares carrying limited liability, having a common seal and perpetual succession.

II. TYPES OF SHARES

According to **companies Act, 2013** no change in the concept of types of share capital as in 1956 Act.

❖ **TYPES OF SHARES**

➢ **Equity Share:** A business's capital structure generally has both equity and debt. Debt is the amount of capital that has to be repaid, such as a bank loan. Equity, on the other hand, does not have to be repaid. It is the amount of money that investors put into a company in return for a share of the company's ownership. When the business makes money, some of the profit is then distributed to those shareholders as a return on their investment. Initially, the business founder is likely to provide all the capital of the start-up in return for 100 percent of the company's shares. A start-up can also raise capital by selling equity to external investors such as business angels.

➢ **Preference Shares:** Preference shares, more commonly referred to as preferred stock, are shares of a company's stock with dividends that are paid out to shareholders before common stock dividends are issued. If the company enters bankruptcy, preferred stockholders are entitled to be paid from company assets before common stockholders. Most preference shares have a fixed dividend, while common stocks generally do not. Preferred stock shareholders also typically do not hold any voting rights, but common shareholders usually do.

❖ **Types of preference shares**

➢ **Participating Preference Shares or Non-participating Preference Shares:** Those preference shares, which have right to participate in any surplus profit of the company after paying the equity shareholders, in addition to the fixed rate of their dividend, are called participating preference shares. Those preference shares which do not carry the right of share in excess profits are known as non participating preference shares.

➢ **Convertible Preference Shares or Non-convertible Preference Shares :** Those preference shares, which can be converted into equity shares at the option of the holders after a fixed period according to the terms and conditions of their issue, are known as convertible preference shares. which preference shares are not convertible into equity shares are known as non convertible preference shares.

➢ **Cumulative preference shares or Non-Cumulative preference shares :** In case the company has not been able to pay part or all of the annual dividends because of insufficient profit, the unpaid amount is carried forward to future years and made good when the company has sufficient profit to pay the dividends. These type of shares are called cumulative preference shares. Non-cumulative preference shares are those type of preference shares, which have right to get fixed rate of dividend out of the profits of current year only. not carry the right to receive arrears of dividend.

- **Redeemable preference shares or Irredeemable preference shares :** These are preference shares that the company will buy back at an agreed date in the future. They are classified as non-current liabilities in the statement of financial position of a company Irredeemable preference shares are those that will not be bought back by the company. Shareholders will continue to earn dividends as long as profit is earned. They are listed under heading equity in the statement of financial position of a company.

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❖ **Procedure for issue of shares**

Issue of Prospectus: Whenever shares are to be issued to the public the company must issue a prospectus. Prospectus means an open invitation to the public to take up the shares of the company thus a private company need not issue prospectus. Even a Public Company issuing its shares privately need not issue a prospectus. However, it is required to file a "Statement in lieu of Prospectus" with the register of companies. The Prospectus contains relevant information like names of Directors, terms of issue, etc. It also states the opening date of subscription list, amount payable on application, on allotment & the earliest closing date of the subscription list.

- **Application of Shares:** A person intending to subscribe to the share capital of a company has to submit an application for shares in the prescribed form to the company along with the application money before the last date of the subscription mentioned in the prospectus.

Over Subscription: If the no. of shares applied for is more than the no. of shares offered to the public then that is called as over Subscription.

Under Subscription: If the no. of shares applied for is less than the no. of shares offered to the public then it is called as Under Subscription.

- **Allotment of Shares**: After the last date of the receipt of applications is over, the Directors, Proceed with the allotment work. However, a company cannot allot the shares unless the minimum subscription amount mentioned in the prospectus is collected within a stipulated period. The Directors pass resolution in the board meeting for allotment of shares indicating clearly the class & no. of shares allotted with the distinctive numbers. Then Letters of Allotment are sent to the concerned applicants. **Letters of Regret** are sent to those who are not allotted any shares & application money is refunded to them.

Partial Allotment: In partial allotment the company rejects some application totally, refunds their application money & allots the shares to the remaining applicants.

Pro-rata Allotment: When a company makes a pro-rata allotment, it allots shares to all applicants but allots lesser shares then applied for E.g. If a person has applied for three hundred shares he may get two hundred shares.

- **Calls on Shares:** The remaining amount of shares may be collected in installments as laid down in the prospectus. Such installments are called calls on Shares. They may be termed as "Allotment amount, First Call, Second Call, etc."
- **Calls–in–Arrears:** some shareholders may not pay the money due from them. The outstanding amounts are transferred to an account called up as "Calls-in-Arrears" account. The Balance of calls-in-arrears account is deducted from the Called-up capital in the Balance Sheet.

- **Calls–in–Advance**: According to sec.92 of the Companies Act, a Company may if so authorized by its articles, accept from a shareholder either the whole or part of the amount remaining unpaid on any shares held by them, as Calls in advance. No dividend is paid on such calls in advance. However, interest has to be paid on such calls in advance.

❖ **Terms of issue of shares**

A limited company may issue the shares on following different terms.

- Issue of Shares for Consideration other than cash or for cash or on capitalization of reserves.
- Issue of Shares at par i.e. at face value or at nominal value.
- Issue of Shares at a Premium i.e. at more than face value.
- Issue of Shares at a Discount i.e. at less than the face value.

❖ **Issue of shares at a premium:** When the shares are issued at a price higher than the nominal value of the shares then it is called as shares issued at a premium. The amount of premium is decided by the board of Directors as per the guide lines issued by SEBI. Such share premium collected by the company is credited to a separate A/c called as **"Securities Premium reserve A/c"**. Although Securities Premium is a profit to the company, it is not a revenue profit, it is treated as **capital profit**, which can be utilized only for the following purposes as per sec. 78 of the Companies Act –

- Issue of fully paid bonus shares to the existing shareholders.
- Writing off the preliminary expenses of the company.
- Writing off the expenses of issue or the commission paid or discount allowed on any issue of shares / debentures.
- Providing the premium payable on redemption of preference shares or debentures. The company can utilize the security Premium for any other purpose only on obtaining the sanction of the court

- **Issue of shares at a discount**

The Companies Act, permits issue of shares at a discount subject to the following conditions. (sec. 79) –

- The issue must be of a class of shares already issued.
- Not less than 1 year has at the date of issue elapsed since the date on which the company became entitled to commerce business.
- The issue at a discount is authorized by a resolution passed by the company in the general meeting & sanction by the company law board.
- The maximum rate of discount must not exceed 10% or such rate as the company law board may permit.
- The shares to be issued at a discount must be issued within two months of the sanction by the company law board or within such extended time as the company law board may allow.

Accounting entries for share capital Transaction.

- **For receipts of application money**

Bank Account Dr.
To Share application Account
(Being application money received)

- **On allotment of shares**

Application money transferred to share capital account.

Share application Account Dr.
To Share capital Account
(Being the application money transferred to share capital Account)

- Then those are not allotted the shares their application money returned.

Share application Account Dr.
To Bank Account
(Being application money of shares returned)

- On shares allotment money becomes due.

Share allotment Account Dr.
Discount on issue of shares Account Dr.
(shares issued at a discount)
To Share capital Account
To Security premium reserve Account (shares issued at premium)
(Being allotment money due)

- **On receipt of allotment money**

Bank Account Dr
To Share Allotment Account
(Being allotment money received)

- **On making the first call due from shareholder**

Share First Call Account Dr.
To share Capital Account
(Being first call money due)

- **On receipt the first call money**

Bank Account Dr.
To Share First call Account
(Being First call money received)

- **On making the last call due from shareholder**

Share last Call Account Dr.
To share Capital Account
(Being first call money due)

- **On receipt the last call money**

Bank Account Dr.
To Share last call Account
(Being last call money received)

- **Further Issue of Capital :** Preferential Basis Provisions relating to further issue of capital to be applicable to all types of companies Existing shareholders on proportionate basis Apart from existing shareholders , shares may also be offered to employees as ESOP(Employees stock ownership plan) .On

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the condition of expiry of two years of formation of company OR 1 year from allotment of shares for offer of shares to any person (including existing shares) for cash or other than cash, if Special Resolution passed or Price determined by Registered Value.

- **Preferential Offer means**: Offer of equity shares, Fully Convertible debentures/partly Convertible Debentures/other security convertible into equity to select person or group of person. Not include PI, Bonus, ESOP, ESPS, Sweat Equity, Depository receipt in India/Abroad. Necessary disclosures in Explanatory Statements as prescribed in rules Allotment be completed within 12 months from the date of SR In case of convertible securities, the price of resultant share be known beforehand. In addition to the above should also comply with conditions laid down in Section 42 of the Act.

- **Bonus Share :**

Issue of Bonus Shares can be made out of:
- Free reserves; or
- The securities premium account; or
- Capital redemption reserve account

Company cannot issue bonus shares by capitalizing revaluation reserves. Decision of issue of Bonus Shares once made by the Board cannot be withdrawn

- **Bonus Shares can be issued if –**

- Authorization by articles of association;
- Board and shareholders" approval;
- No default in payment of interest or principal on FDs or other debt securities;
- No default with respect to payment of statutory dues of employees; and
- there being no partly paid-up shares.

- **Right shares:** Under Sec.94 of Companies Act, A company can issue additional shares at any time by passing an ordinary resolution at its General Meeting. However, under Sec. 81 of that, such additional shares must be 1st offered to the existing equity shareholders in the proportion of the shares already held by them. Such additional shares are called "Rights Shares".

- **Forfeiture of share:** Sometimes some shareholders fail to pay the called up amount in full i.e. they do not pay in one or more installments after the allotment of the shares to them. In such a case either the company can go to the court and file a suit against the defaulting shareholders for recovery of the due amount or can cancel the membership. In case the membership is cancelled, the amount paid by the defaulting members towards share capital stands forfeited, is called „Forfeiture of Shares.

- **Sweat equity shares:** Issue of sweat equity shares is governed by the provisions of Section 79A of the Companies Act, 1956. Explanation to the said section defines the expression „sweat equity shares "to mean equity shares issued by the company to employees or directors at a discount or for consideration other than cash for providing know how or making available rights in the nature of intellectual property rights or value additions, by whatever named called. It is therefore, necessary for the issue of sweat equity shares that the concerned employee either provides the know-how, intellectual property rights or other value additions to the company.

- **Surrender of shares:** A shareholder who is not able to pay the call money may surrender its shares to the company. The company cancels such surrender shares. Surrender is a voluntary act on the part of the shareholder, whereas Forfeiture is a compulsory act on part of the company. The effect of both surrender & Forfeiture is the same, i.e. cancellation of the shares. The company can accept surrender of shares if permitted by its Articles of Association. The accounting treatment in respect of surrender of shares is same as that of Forfeiture of Shares.

- **Reissue of forfeited share:** If shares are forfeited the membership of the shareholder stands cancelled and the shares become the property of the company. There after the company has an option of selling such forfeited shares. The sale of forfeited shares is called „reissue of share.

- **Buyback of Shares OR Capital Reduction:** If variation of rights of one class of shareholders affects the rights of other class of shareholders, the consent of at least 75% of such other class need to be obtained. Uniform time lag of one year has been provided for subsequent buyback be the earlier buyback has been approved by Board or Shareholders.

- Even Scheme of Compromise, M&A etc. to be in line with Buyback provisions Now possible if default made in payment of deposit, dividend etc. is remedied and a period of 3 years lapsed after such default.
- No Reduction if deposit or any or interest thereon is in arrear.
- Accounting standards compliance made mandatory or any other requirement of the Bill duly confirmed by Auditor Certificate filed with NCLT.
- Filing of NCLT order with ROC within 30 days References.
- Notice by NCLT to CG, SEBI and every Creditor.
- Publication of Order of confirmation of CR has been made compulsory.

III. CONCLUSION

The main function of the authorized capital of a company is to protect the existing shareholders against possible dilution of their equity interests by the issuing of shares beyond the stipulated limit. The authority therefore given to companies to purchase their own shares has given companies the flexibility to decide on matters directly relating to the share capital of the company.

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