

## **Notes on SHARE CAPITAL & DEBENTURE**

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### **Unit 4: SHARE CAPITAL & DEBENTURE [No of classes 16 / Marks 16]**

**Share, Share Capital - Types and Definition, Allotment and Forfeiture, Calls on Shares, ESOP, Buyback, Sweat Equity, Bonus, Right, Capital Reduction, Share Certificate, D-mat System, Transfer and Transmission, Redemption of Preference Shares, Debenture – Definition, Types, Rules Regarding Issue of Debenture.**

### **SHARE**

U/s 2(84) share means share in the share capital of the company and includes stock. Therefore share means a unit into which the Share Capital of the company is divided.

A share is the interest of the shareholder in the company measured by a sum of money for the purpose of liability in the first place and dividend in the second as given by Justice Farewell.

In the CIT vs. Standard Vaccum Oil Co the judge opined that “by a share in a company is meant not any sum of money but a interest measured by a sum of money and made up of diverse rights conferred on its holders by the articles of the company which constitute a contract between them and the company”.

### **SHARE CAPITAL**

Share Capital means funds raised by companies by issue of shares.

Different types on the basis of rights:

Equity Shares: Those shares which are not Preference Shares are equity shares, equity shares are having voting rights and are the actual owners of the company.

### **TYPES OF EQUITY SHARES:**

Public Issue:

Initial Public Offer[IPO];/Financial Public Offer[FPO];

Private Issue:

Right Shares;

Bonus Shares;

QIP-Qualified Institutional investors

### **PREFERENCE SHARES:**

Preference Shares: Preference Shares are those shares which have preferential

rights regarding dividend and refund of capital. They get fixed dividend.

### **TYPES OF PREFERENCE SHARES:**

- Cumulative Preference Shares
- Non Cumulative Preference Shares
  
- Participating Preference Shares
- Non Participating Preference Shares
  
- Convertible Preference Shares
- Non Convertible Preference Shares
  
- Redeemable Preference Shares
- Irredeemable Preference Shares
  
- Deemed Preference Shares [ Sec 43]: By whatever name it is called if the shares have the rights of preference shares then it is called Deemed Preference Shares.

### **DIFFERENT TYPES ON THE BASIS OF CALLED UP CAPITAL :**

- Authorized Share Capital

Total value of shares the company is allowed to allot. Authorized capital is mentioned in the capital clause of the memorandum – It is also known as nominal or registered capital.

- Allotted Share Capital

Value of shares the company has actually allotted to members.

- Paid-up Share Capital

Amount that members have paid on their shares, excluding any premium.

- Called-up Share Capital

Paid-up capital + any amount members have been called on to pay.

- Uncalled Capital

Uncalled capital is the amount owing on partly paid shares which members have not yet been called on to pay.

- Reserve Capital

Reserve capital is uncalled capital the company has resolved not to call unless the company is wound up.

- Capital Reserve

That portion of Authorized capital which is still not called.

## **ALLOTMENT OF SHARES**

Allotment is the acceptance of a Company to give Shares to the Investor in response to an offer for purchase of Shares made by him for a consideration. Allotment has not been defined Companies Act 2013. It is construed to mean the act of allotting.

The investing public makes its offer to subscribe for Shares in Application Forms [prospectus] supplied by the Company. When the Company accepts an application, it amounts to allotment by the company. Some definitions by judicial decisions are given below:

1. Allotment is "The appropriation out of the previously unappropriated Capital of the Company, of a certain number of Shares to a person --- Sri Gopal Jalan & Co. vs Calcutta Stock Exchange Association Ltd." (1964)

Re-issue of forfeited Shares does not constitute appropriation out of the Unappropriated Capital of the Company, hence it is not allotment.

The procedure involved in Allotment:

The procedure of Allotment of Shares

1. Resolution by Board of Directors/Committee should be passed.
2. Allotment Letter: Upon allotment, the Company should send/post an Allotment Letter to each of the allottees mentioning therein the details of Shares allotted to them.
3. Return of Allotment: The Company should file a Return of Allotment in FORM PAS -3, with the ROC along with fee, within 30 days from the date of allotment. The time limit can be extended by the ROC on an application made by the Company.
4. Register of members: The Company should prepare Register of members in accordance with section 88.
5. Share Certificate: instead of Share Certificate now the person who has been allotted can see his holding in the demat account.