# ISSUE OF SHARES

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# CONCEPTS OF COMPANY ACCOUNTS

The company form of business organization is a voluntary association of persons to carry on a business. Normally, it is given a legal status and is subject to certain legal regulations. It is an association of persons who generally contribute money for some common purpose. The money so contributed is the capital of the company. The persons who contribute capital are its members. The proportion of capital to which each member is en titledis called his share, therefore members of a joint stock company are known as shareholders and the capital of the company is known as share capital. The total share capital is divided into a number of units known as 'shares'. The companies are governed by the Indian Companies Act, 2013.

# MEANING OF SHARES

Share as defined in Section 2(84) of the Companies Act, 2013 means a share in the share capital of a company and it also includes stock. A share is one unit into which the total share capital is divided. It is a fractional part of the share capital and forms the basis of ownership in the company. For example, when a company has a share capital of RS.5,00,000 divided into 50,000 shares of RS.10 each and a person who has taken 50 shares of that company is said to have a share in the share capital of the company to the tune of RS.500. In other words, shares are divisions of the share capital of a company.

# KINDS OF SHARE CAPITAL

The share capital of a company limited by shares shall be of two kinds under the Companies Act 2013,namely :–

(a) Equity share capital: Equity share capital with reference to any company limited by shares means all
share capital which is not preference share capital. Equity share capital can be
(i) with voting rights; or
(ii) with differential rights as to dividend or voting or any other right.

(b) *Preference share capital*: Preference share capital with reference to any company limited by shares
means that part of the issued share capital of the company which carries or would carry a preferential right with respect to –

- payment of dividend, either as a fixed amount or an amount calculated at a fixed rate; and
- repayment, in the case of a winding up or repayment of capital, of the amount of the share capital paid-up or deemed to have been paid-up, whether or not, there is a preferential right to the payment of any fixed premium or premium on any fixed scale, specified in the memorandum or articles of the company.

# TYPES OF SHARE CAPITAL IN BALANCE SHEET

***(a) Nominal or Authorized Capital:*** It refers to that amount which is stated in the Memorandum of Association as the share capital of the company. The company is registered with this amount of capital. This is the maximum limit of capital which the company is authorized to issue and beyond which the company cannot issue shares unless the capital clause in the Memorandum is altered and the authorized capital is increased.

***(b) Issued Capital:*** It refers to that part of the authorized capital of the company which has actually been offered to the public for subscription in cash and the shares allotted to vendors/promoters for consideration other than cash. It sets the limit of the capital available for subscription.

***(c) Subscribed Capital:*** It refers to that part of the issued capital which has actually been subscribed by the public and subsequently allotted to them by the directors of the company which are fully paid or partially paid.

***d) Called up Capital:*** It is that portion of the subscribed capital which the shareholders are called upon to pay on the shares allotted to them. A company does not necessarily require the full amount at once on the shares subscribed and hence calls up only such portion as it needs. The balance then remaining is known as uncalled capital.

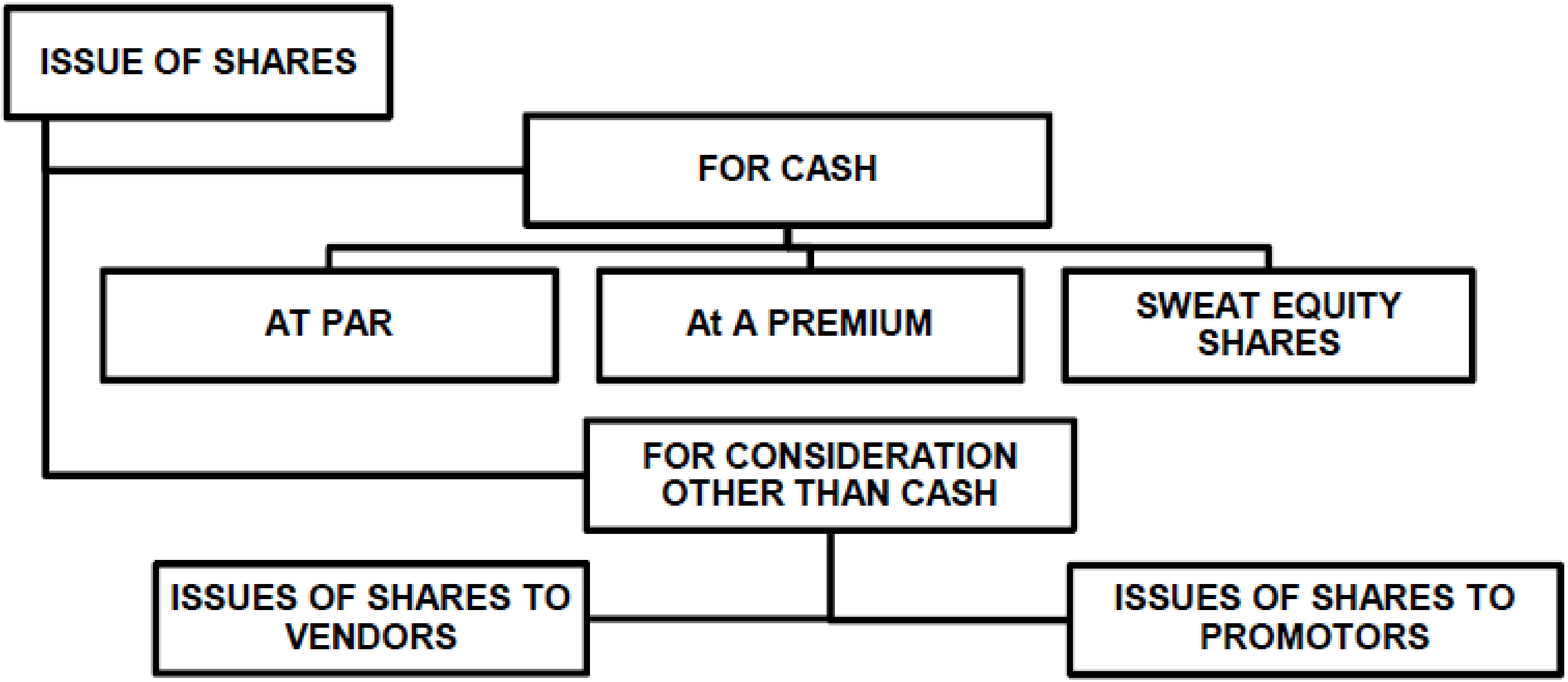
***(e) Paid-up Capital:*** It refers to that part of the called up capital which has actually been paid by the shareholders. This is the actual capital of the company which is included in the total of the Balance Sheet. Paid-up capital is equal to the called up capital if all the shareholders have paid the amount called up by the company.

# ISSUE OF SHARES

When a public company desires to raise capital by issuing its shares to the public, it has to invite the public to subscribe for its shares. The invitation is made through a document called the prospectus. The person who intends to subscribe to those shares should make an application for the desired number of shares to the company. Then, the company will allot shares to the applicant.

**Allotment means** the appropriation of a certain number of shares to an applicant in response to his application. The company cannot allot more than the number of shares offered to the public for subscription through the prospectus. Moreover, the company cannot make allotment unless the amount stated in the prospectus as the minimum subscription has been subscribed and the sum payable on application for the stated amount has been received by the company.

If the number of shares applied for is less than the number of shares offered, the allotment can be only for the shares applied for provided minimum subscription is raised. The minimum subscription is 90% of the issued amount.


ISSUE OF SHARES
FOR CASH
AT PAR
At A PREMIUM
SWEAT EQUITY SHARES
FOR CONSIDERATION OTHER THAN CASH
ISSUES OF SHARES TO VENDORS
ISSUES OF SHARES TO PROMOTORS

# UNDER-SUBSCRIPTION OF SHARES

In actual practice, it rarely happens that the number of shares applied for is exactly equal to the number of shares offered to public for subscription. If the number of shares applied for is less than the number of shares issued the shares are said to be undersubscribed. When an issue is under-subscribed, entries are made on the basis of number of shares applied for, provided the minimum subscription is raised.

# OVER-SUBSCRIPTION OF SHARES

When the number of shares applied for exceeds the number of shares issued, the shares are said to be oversubscribed. In such a situation, the directors allot shares on some reasonable basis because the company can allot only that number of shares which has been actually offered for subscription. Moreover, as per the guidelines issued by SEBI, the company cannot reject out-rightly any application for shares unless it has incomplete information or absence of signature(s) or insufficient application money and so on. In short, the following procedure is adopted:

(i) Total rejection of some applications;

(ii) Acceptance of some applications in full; and

(iii) Allotment to the remaining applicants on pro-rata basis.

# THANK YOU!