



VIT[®]

Vellore Institute of Technology
(Deemed to be University under section 3 of UGC Act, 1956)

Legal Aspects of Business

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Recapitulate

The companies Act, 2013

Prospectus

- Introduction
- Formalities in issuing Prospectus
- Golden rules to frame prospectus
- Types of prospectus
- Content of prospectus
- Liability for Misstatement in Prospectus

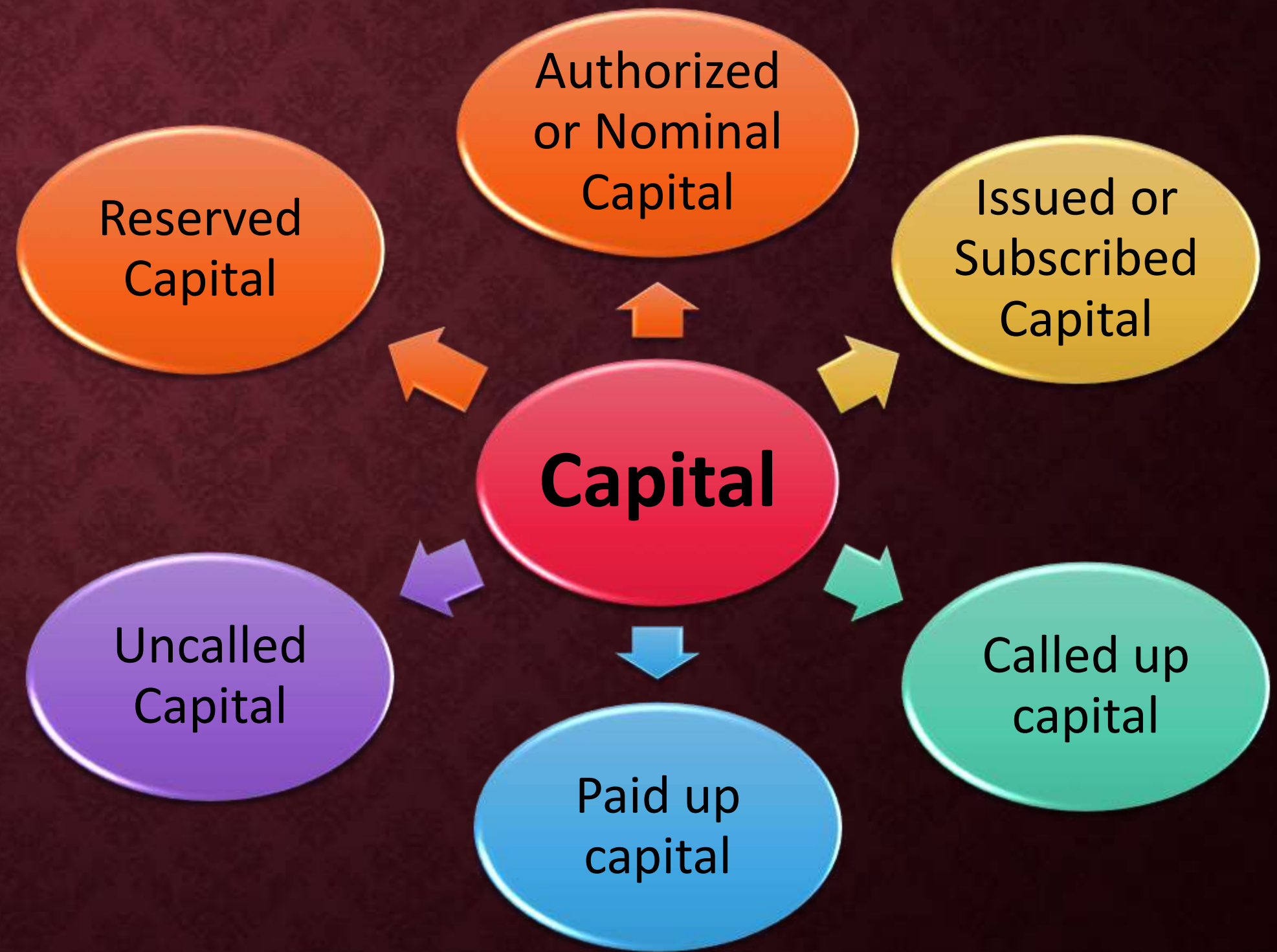
The Companies Act, 2013

Share Capital

The capital of a company is divided into units of a fixed denomination. Share refers to only such a unit. It is therefore clear that a share is a fractional part of the company's share capital. Otherwise, share capital means the capital raised by a company by the issue of shares.

The Companies Act, 2013

Types of Capital



The Companies Act, 2013

Types of Shares

Preference Shares

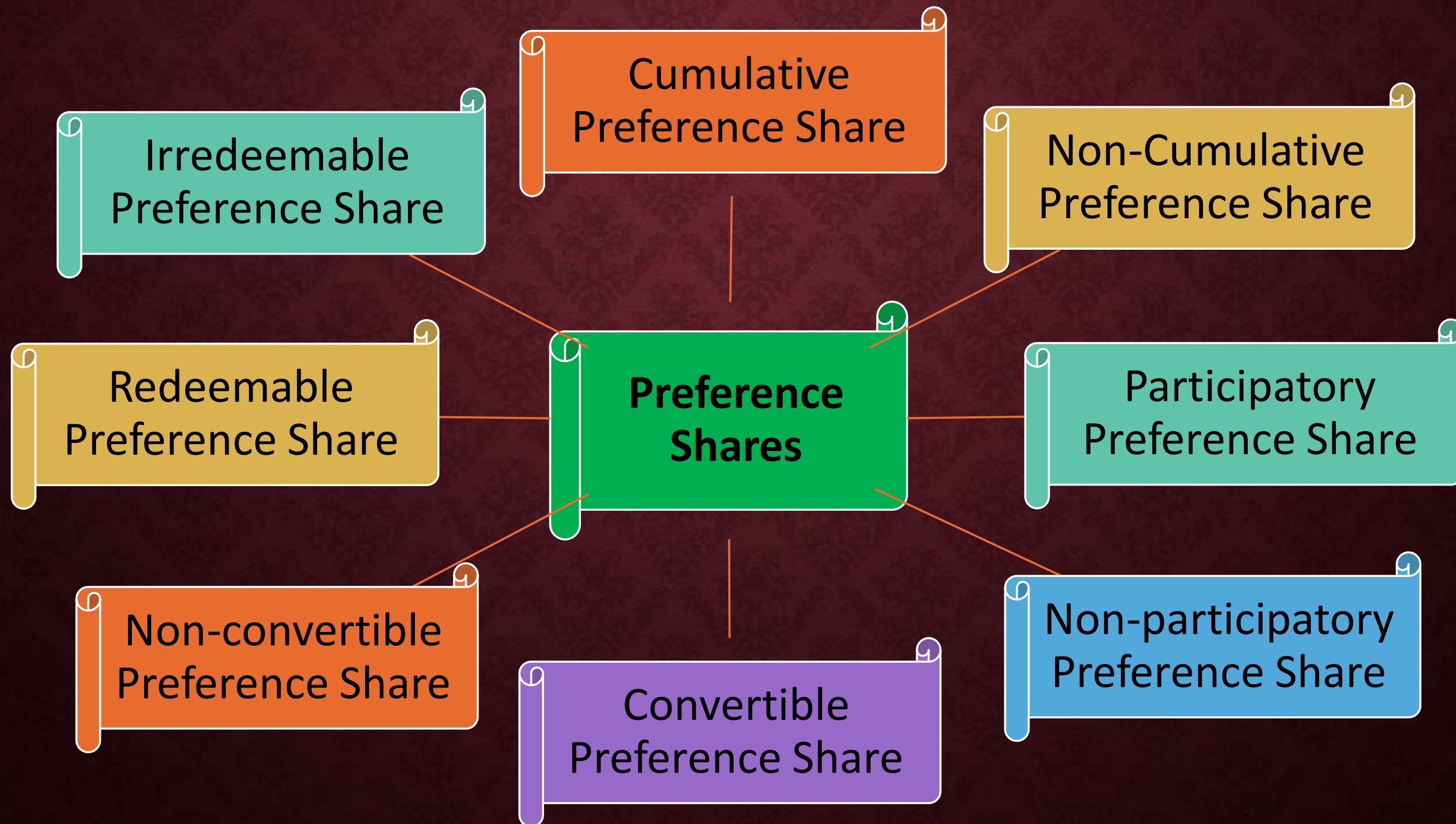
- A preferential right to get a fixed rate of dividend during the life of the company.
- A preferential right to the return of share capital at the time of winding up of the company.

Equity Shares

- All shares other than preference shares will be ordinary or equity shares.
- They don't have fixed rate of dividend, it will change with the magnitude of available profits

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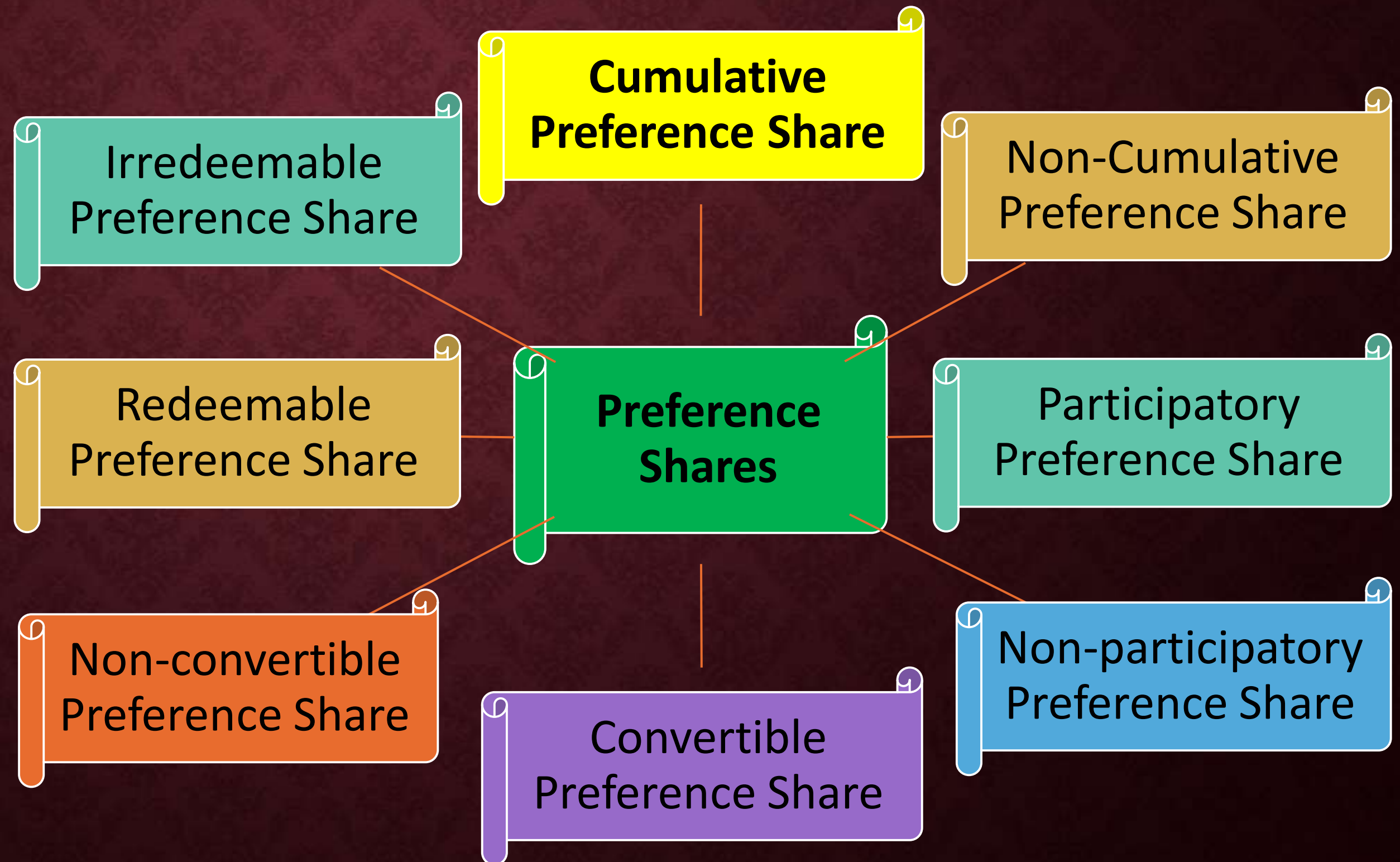
Types of Preference Shares



The Companies Act, 2013

Types of Preference Shares

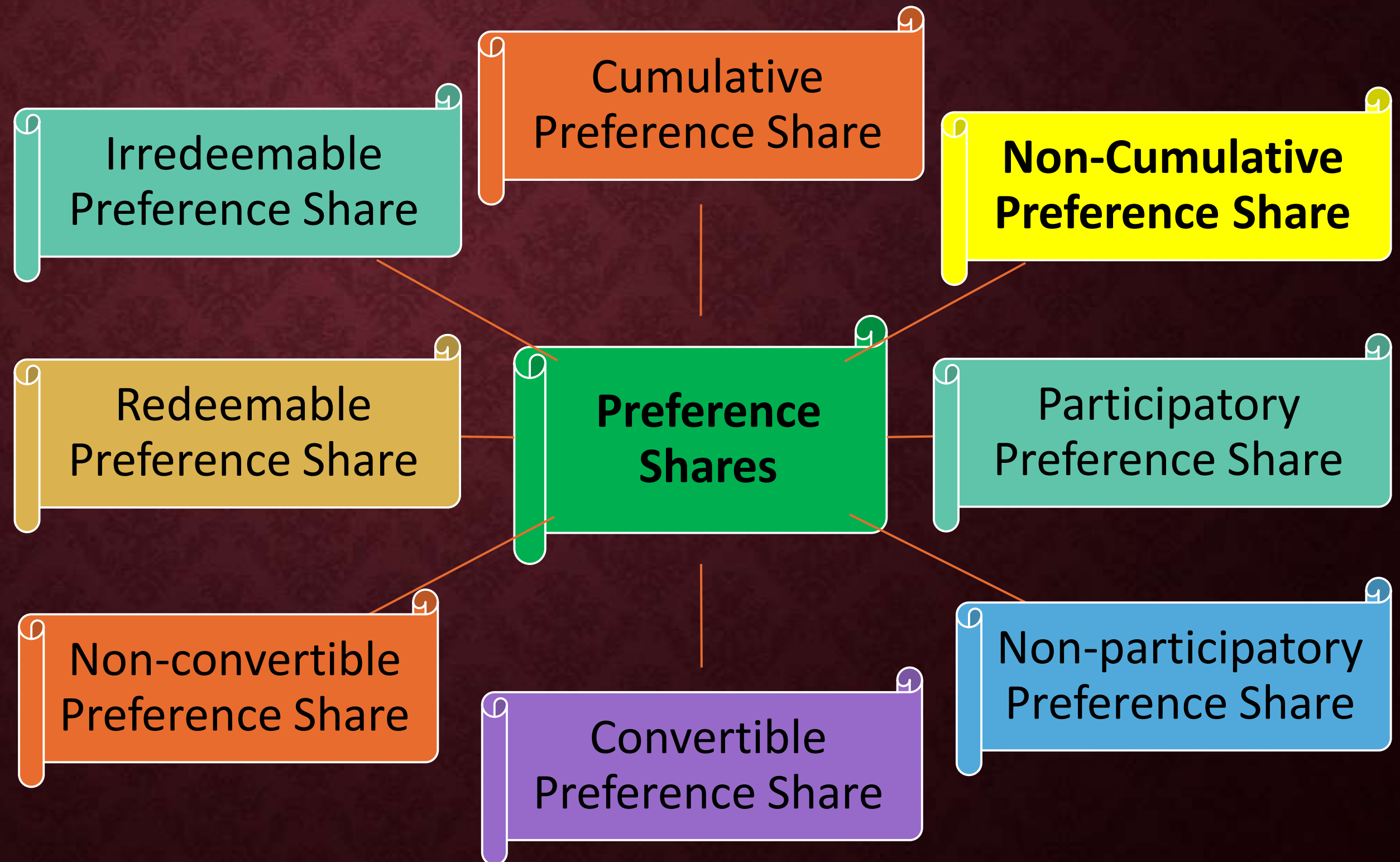
**Dividends not
declared and
paid get
accumulated**



The Companies Act, 2013

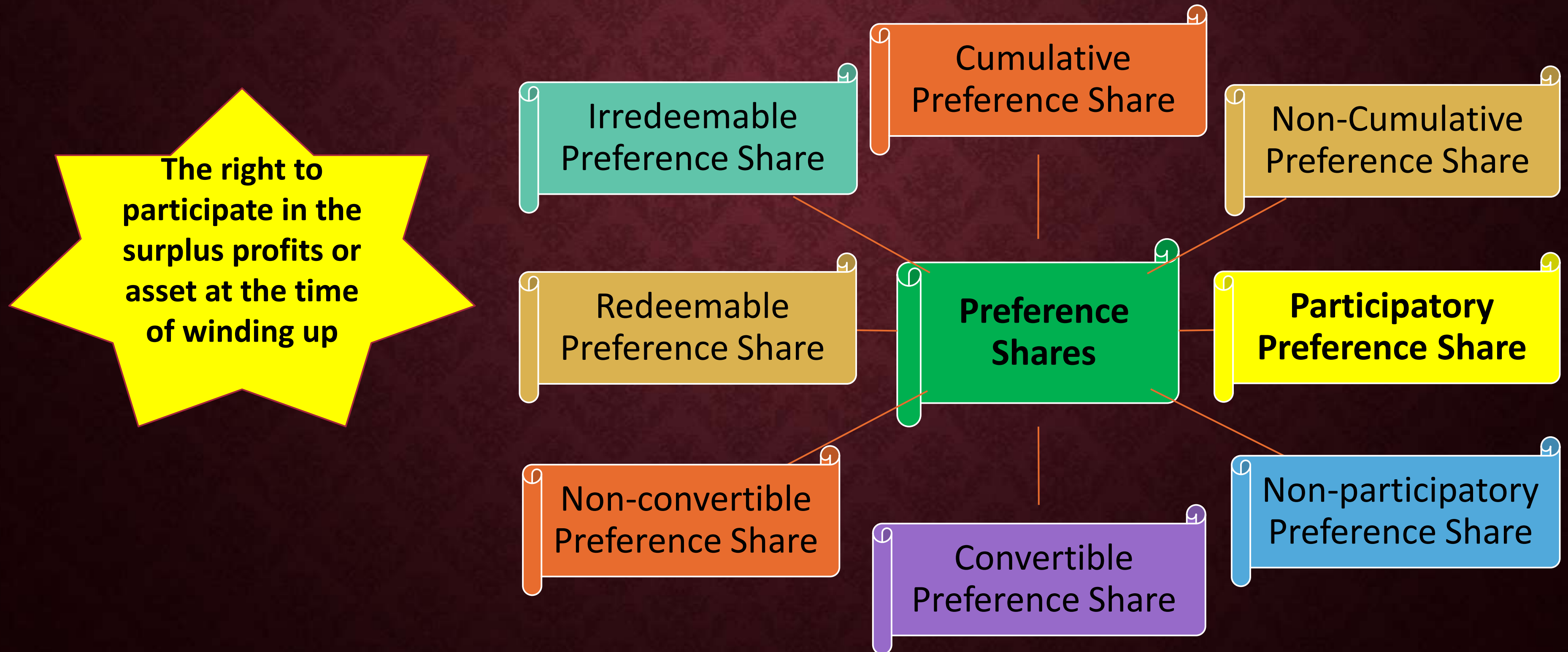
Types of Preference Shares

If dividend is not paid in any particular year, it lapses



The Companies Act, 2013

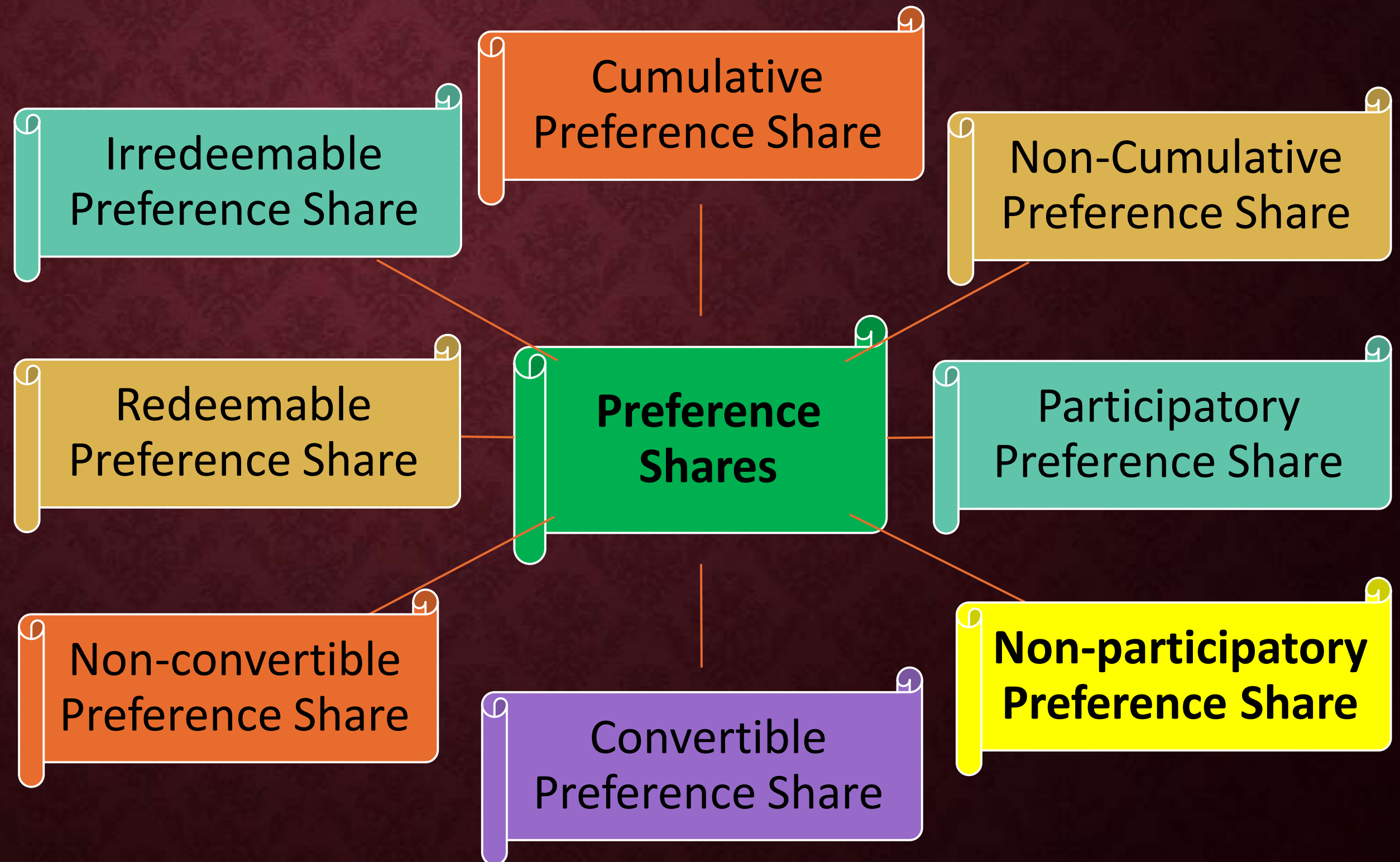
Types of Preference Shares



The Companies Act, 2013

Types of Preference Shares

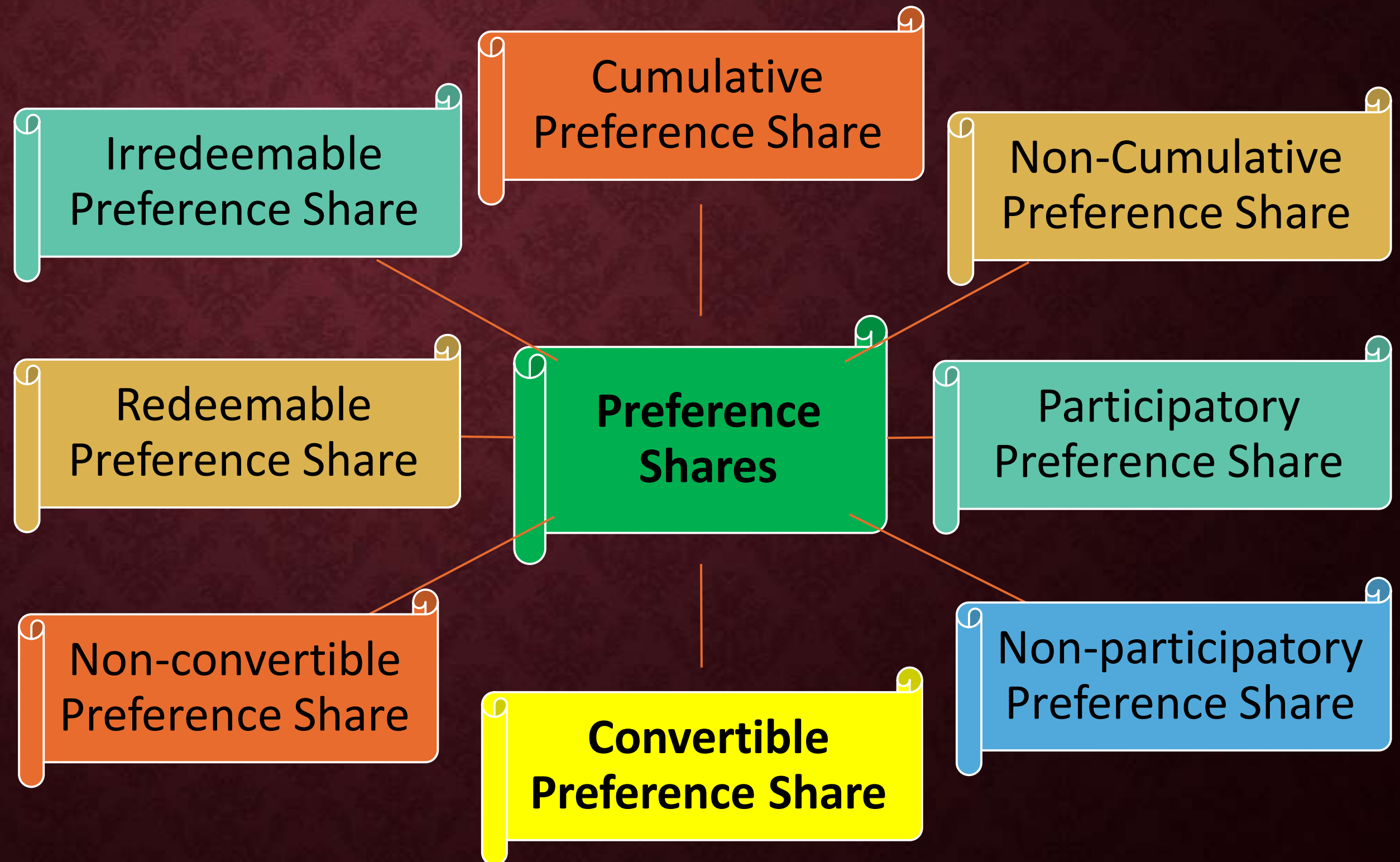
Shares are
entitled to only
a fixed rate of
dividend



The Companies Act, 2013

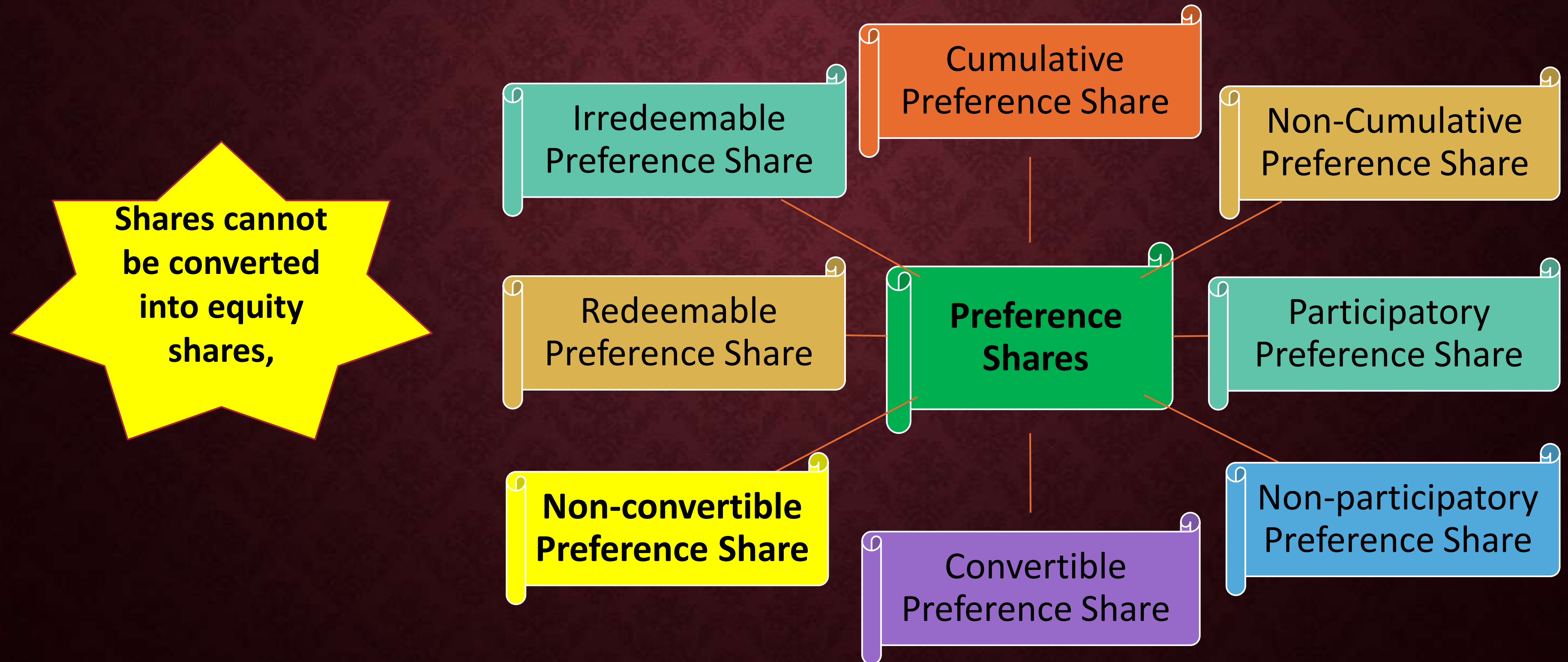
Types of Preference Shares

Convert the
preference shares
into equity shares
within a specified
period



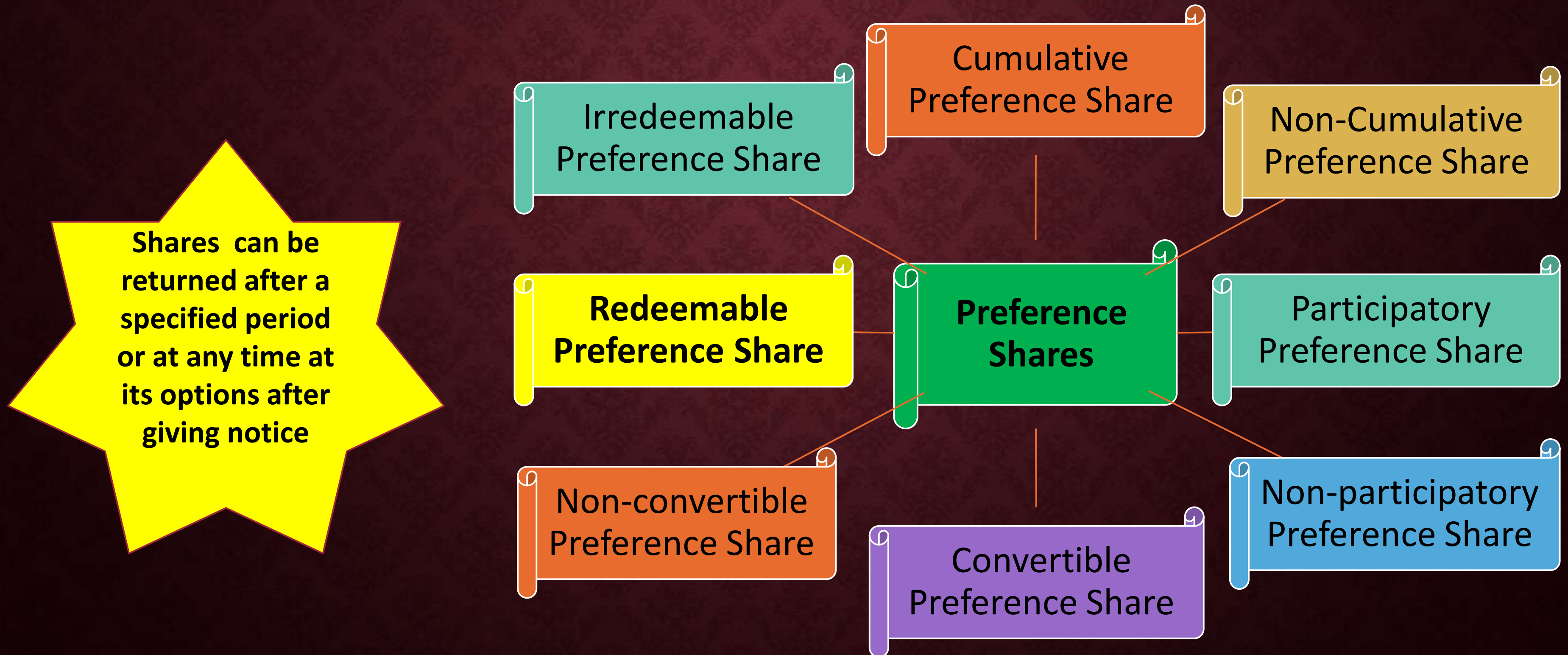
The Companies Act, 2013

Types of Preference Shares



The Companies Act, 2013

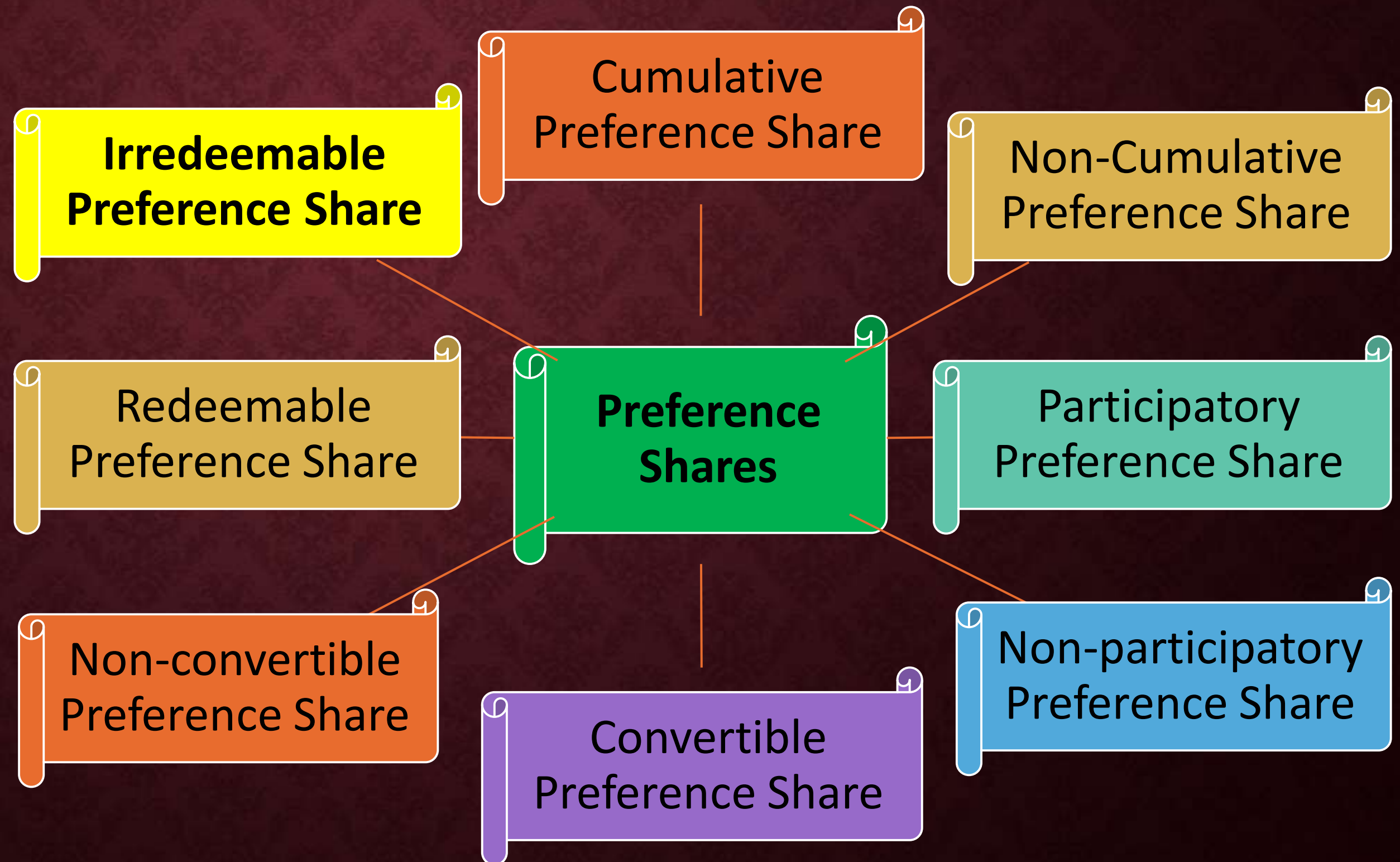
Types of Preference Shares



The Companies Act, 2013

Types of Preference Shares

Shares that
cannot be
redeemed
during the
lifetime



The Companies Act, 2013

Voting Rights of Shareholders

- **Equity shareholders' rights**

An equity shareholder of a company limited by shares has a right to vote on every resolution placed before the company. His voting right on a poll is in proportion to his share of the paid-up equity capital of the company.

- **Preference shareholders' rights**

A preference shareholder has a right to vote on those resolutions which directly affect his rights. Any resolution for winding up the company or for the repayment or reduction of its share capital is deemed directly to affect the rights of the preference shareholders.

The Companies Act, 2013

Shareholders and Debenture holders

Shareholders

A shareholder can be a person, company or organization that hold stock(s) in a given company. A shareholder must own a minimum one shares in a public or private corporation. They have voting rights and returns will be paid in the form of dividend based on the types of shares and profit earned by the company .

Debenture holders

The debenture holders of a company are called creditors of the company. Debenture is a kind of long term loan that a company takes in return for a fixed rate of interest and at clearly defined intervals. Debenture holders have no right to participate in the company's meeting or have any say in the way company conducts its business. Sometimes, convertible debenture can be converted to equity shares after a specified period.

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Distinguish between Share and Debenture

Sl. No.	Concept	Shares	Debentures
1	Meaning	Owned funds of the company	Borrowed funds of the company
2	What is it?	Represent the capital of the company	Represent the debt of the company
3	Holder	Shareholders	Debenture holders
4	Status of Holders	Owners	Creditors
5	Form of Return	Dividend	Interest
6	Payment of return	Dividend paid out of profit	Interest paid even there is no profit

The Companies Act, 2013

Distinguish between Share and Debenture

Sl. No.	Concept	Shares	Debentures
7	Allowable deductions	Not allowed as deduction, since it is appropriation of profit	Being an business expenses it is allowed as deduction from profit
8	Security for payment	No	Yes
9	Voting rights	Have voting rights	Don't have voting rights
10	Conversion	Cannot converted into debenture	Converted into shares
11	Repayment in the event of winding up	Paid after all the liabilities	Priority over shares

Review Questions

1. The equity share holders receives fixed rate of dividend, it will not change with the magnitude of available profits. **True or False**
2. A person invested in the debentures of the company is known as.
 - a. Creditors
 - b. Owners
 - c. Share holders
 - d. Promoters
3. In a particular type of preference share if the dividend is not paid in any particular year, it lapses.
 - a. Non participatory preference share
 - b. Non cumulative preference share
 - c. Non convertible preference share
 - d. All of the above

Answer

1. The equity share holders receives fixed rate of dividend, it will not change with the magnitude of available profits.

Answer: False

2. A person invested in the debentures of the company is known as.

Answer: a. Creditors

3. In a particular type of preference share if the dividend is not paid in any particular year, it lapses.

Answer: b. Non cumulative preference share

Thank You