SHARES

Classes of Shares;
Preference shares
Equity shares

WHAT IS A SHARE?

A share is defined as, "a share in the share capital of the company and includes stock"

- Share capital of the company is collected by issue of shares.
- Share is one of the units into which total capital is divided.
- The person who owns the share is called shareholder.

CLASSES OF SHARES

- **Preference Shares**

  1. It offers a fixed rate of dividend.
  2. Right to get capital on winding up, before anything is paid to equity shareholders.

- **Equity or Ordinary Share**

  1. These shares have voting rights.
  2. It doesn't offer a fixed rate of return.
  3. They are not entitled to get capital on winding up, before paying to preference shareholders.

TYPES OF PREFERENCE SHARES

1. Cumulative Preference Shares
   - Fixed rate of dividend is guaranteed.
   - At the time of inadequate profit, they will not loss anything.
   - Arrear will get in subsequent years.
2. Non-Cumulative Preference Shares
   - Fixed rate of dividend is guaranteed.
   - At the time of inadequate profit, they will not get anything.

3. Participating Preference Shares
   - Fixed rate of dividend is guaranteed.
   - Entitled to share the surplus profit.
4. Non-Participating Preference Shares
   - Fixed rate of dividend is guaranteed.
   - Does not share the surplus profit.
5. Redeemable Preference Shares
   - Shares which a company may repay after a fixed period of time or earlier.
6. Irredeemable Preference Shares
   - It do not carry the arrangement for redemption.
   - Shares are repayable only at winding up.

7. Convertible Preference Shares
   - It can be converted into Equity shares within a certain period.
8. Non-Convertible Preference Shares
   - It cannot be converted into Equity shares.

EQUITY SHARES

It is a share, which is not a preference share is called equity share.

- The whole of the profit of a company is entitled to these shareholders, after paying a fixed dividend to preference shareholders.
- They doesn't get a fixed rate of dividend.
- They will get back their capital only after paying preference share holders.

SWEAT EQUITY SHARES

- It is issued to employees or directors of a company at discounted rate.
- Issued for consideration other than cash.

It must follow these conditions;

1. Authorised by special resolution in general meeting.
2. Number, price, consideration (if any) and classes should be specified in the resolution.
3. The company must complete one year.
4. Equity shares of those company must be listed in recognised stock exchange.

DIFFERENCE BETWEEN..

Equity Shares	Preference Shares
Nominal value is lower.	Nominal value is higher.
Dividend varies according to profit.	Rate dividend is fixed.
No right for arrears of dividend.	Cumulative preference shares get arrears.
No priority in dividend and repayment of capital.	Priority in dividend and repayment of capital.
Cannot be redeemed.	Can be redeemed.
There is more risk.	The risk is lower.
Wider voting right.	Limited voting right.
Control over management.	No control over management.
Highly speculative.	Less speculative.
Ready to take risk and to get greater dividend prefer this.	Not ready to take risk and expect steady income prefer this.

SHARE CAPITAL

Share Capital : Capital raised by the company by the issue of shares.

Share Capital consists of various parts :

1. Authorized or Nominal Capital
2. Issued or Subscribed Capital
3. Called – up Capital
4. Paid – up Capital
5. Uncalled Capital
6. Reserve Capital

AUTHORIZED CAPITAL

- **Authorized Capital :**

- It is the nominal value of the shares which a company is authorized to issue by its Memorandum of Association

- It is the maximum capital which a company will have during its lifetime unless it is increased.

ISSUED CAPITAL

❖ <u>Issued Capital :</u>

- It is the nominal value of shares which are offered to the public for subscription.
- Issued Capital $<$ Authorized Capital
- Issued Capital can never exceed Authorized Capital

CALLED UP & UNCALLED CAPITAL

- **Called up Capital :**

- It is the part of issued capital which has been called up on the shares

- **Uncalled Capital :**

- It is the remainder of the issued capital which has not been called up.

- The company may call this amount any time

PAID - UP & RESERVE CAPITAL

- **<u>Paid up Capital :</u>**

- It is the part of issued capital which has been paid up by the shareholders

- **<u>Reserve Capital :</u>**

- It is that part of uncalled capital of a company which can be called only in the event of its winding up

SHARE CAPITAL

- Capital Requirement (long run) = Rs. 1,000,000
- Current Requirement = Rs. 50,000.
- <u>Authorized Capital</u> = Rs. 1,000,000
- <u>Issued Capital</u> = Rs. 50,000
- (Issued shares)

SHARE CAPITAL

- If you need 30,000 as current requirement :
- <u>Called – up Capital</u> = Rs. 30,000
- <u>Uncalled Capital</u> = Rs. 20,000
- But you receive only Rs. 24,000
- <u>Paid up Capital</u> = Rs. 24,000

Alteration of share Capital

- ✓ Increase the nominal share capital by issuing new shares
- ✓ Divide all or any part of its share capital into shares of larger amount
- ✓ Convert fully paid up shares into stock
- ✓ Subdivide its shares or any part of them into shares of smaller amount
- ✓ Cancel shares which have not been taken up