3 ISSUE OF SHARES

INTRODUCTION :

In Chapter 2 we studied the different sources of finance that a company can use to raise funds. The capital structure of a company consists of its Owned Funds and Borrowed Funds. Owned Funds are made up of Equity shares, Preference shares and retained earnings. A company limited by shares, raises Share Capital by issuing shares.

In this chapter we will study in detail how a company issues different types of shares depending upon its needs. We will also learn about various concepts related to shares.

3.1 CLASSIFICATION OF SHARE CAPITAL :

Share capital refers to the capital made up of Equity Shares and Preference Shares. Usually, in share capital, the proportion of Equity shares is more than Preference shares.

Share Capital can be classified as –

Authorised or Nominal or Registered Capital
(1,00,000 Equity Shares × ₹ 10/- each = ₹ 10,00,000)

Issued Capital
(40000 Equity Shares × ₹ 10/- each = ₹ 4,00,000)

Un-Issued Capital
(60000 Equity Shares × ₹ 10/- each = ₹ 6,00,000)

Subscribed Capital
(30000 Equity Shares × ₹ 10/- each = ₹ 3,00,000)

Un-subscribed Capital
(10000 Equity Shares × ₹ 10/- each = ₹ 1,00,000)

Called-up Capital
(30000 Equity Shares × ₹ 5/- each = ₹ 1,50,000)

Un-Called Capital
(30000 Equity Shares × ₹ 4/- each = ₹ 1,20,000)

Reserve Capital
(30,000 Equity Shares × ₹ 1/-each = ₹ 30,000)

Paid-up Capital
(20000 Equity shares × ₹ 5/- each = ₹ 1,00,000)

Calls In Arrears
(10000 Equity shares × ₹ 5/- each = ₹ 50,000)

A. Authorised/Nominal or Registered Capital :

Authorised Capital is the maximum capital authorised by Memorandum of Association that a company can raise by issuing shares.

It is also called as Registered Capital as it is mentioned in the capital clause of Memorandum of Association and the company pays stamp duty on this amount at the time of incorporation. Authorised Capital is calculated considering the need of capital of a company at present and in future.

Authorised Capital is also called as Nominal Capital as usually a company never issues the entire Authorised Capital.

e.g. 'M' Ltd. Company has Authorised Capital of ₹ 10,00,000 which can be divided into 1,00,000 Equity shares having a face value of ₹ 10 each.

A company can increase its Authorised capital by altering its Memorandum of Association.

B. Issued and Unissued Capital :

Issued Capital is that part of Authorised Capital which is offered by the company to prospective investors for subscription. Thus, it is the shares that the company is offering to the public to buy.

The balance part of Authorised capital not offered to the public is called as 'Unissued Capital'. In future, the company can issue shares from the unissued capital.

The issued capital of a company may be equal to or less than the Authorised Capital. e.g. 'M' Ltd. Company can have Issued Capital of ₹ 4,00,000 divided into 40,000 Equity shares at face value of ₹10/- each and the unissued capital will be ₹ 6,00,000 divided into 60,000 Equity shares of ₹ 10/- each.

C. Subscribed and Unsubscribed Capital :

Subscribed capital is that part of Issued-capital which has been subscribed or taken up (bought) by investors (subscriber). The public may or may not subscribe for the entire Issued capital. Hence, that part of the Issued capital not subscribed by the investors is called as 'unsubscribed capital'. Thus, the subscribed capital may be equal to or less than the Issued capital.

e.g. If 'M' Ltd. Company has Issued capital of ₹ 4,00,000 i.e. has issued 40,000 Equity shares, then the company's subscribed capital can be ₹ 3,00,000 divided into 30,000 Equity shares of ₹ 10/- each. Hence, the unsubscribed capital will be ₹ 1,00,000 divided into 10,000 Equity shares of ₹ 10/- each.

D. Called-up Capital, Uncalled Capital and Reserve Capital :

At the time of Issue, full value of the shares is usually not demanded by the company. Company collects the full value of shares in instalments as per its requirement of funds.

Each Instalment is called as 'calls'. Called-up capital is that part of subscribed capital which a company has 'called' or demanded to be paid by the shareholders. The balance capital which is not demanded from the shareholders is called as uncalled capital.

Reserve Capital is a part of uncalled capital. A company can decide to keep aside a part of its uncalled capital to be called up only at the time of winding up of a company to meet its financial requirements.

e.g. 'M' Ltd. Company may have called up capital of ₹ 1,50,000 i.e. 30,000 Equity shares of face value of ₹ 10/- each out of which ₹ 5/- per share has been called up/demanded by the company.

If the company decides to keep Re. 1/- per share as capital to be collected at the time of the winding up, the Reserve Capital will be ₹ 30,000 i.e. 30,000 equity shares of ₹ 10/- each where Re. 1 per share is kept as Reserve Capital.

Uncalled capital will be ₹ 1,20,000 i.e. 30,000 Equity shares where ₹ 4 per share which will be called up in future.

E. Paidup Capital and Calls in Arrears :

Paid up capital is the total amount of money actually paid up by the shareholders when the company has called up or demanded them to pay.

The amount not paid up by the shareholders is called up as Calls in Arrears or unpaid calls.

Every shareholder has to pay calls as and when the company demands. Failure to pay the calls may lead to forfeiture of shares.

Forfeiture : *Taking away of shares by a company due to non-payment of calls.*

e.g. 'M' Ltd. company has made a call of ₹ 5 per share, so if all the shareholder have paid the calls, then the paid up capital will be ₹ 1,50,000 (30,000 Equity shares ₹ 5 per share). But if for e.g. 10,000 Equity shares calls are not paid then the paid up capital will be ₹ 1,00,000 (20,000 Equity shares × ₹ 5 per share) and Calls-in-Arrears will be ₹ 50,000 (10,000 Equity shares × ₹ 5 per share)

3.2 ISSUE OF SHARES :

A company may need capital to start a new project or to expand or diversify its existing business or to repay its old debts.

It can raise funds by taking loans or by issuing shares, debentures, bonds, etc.

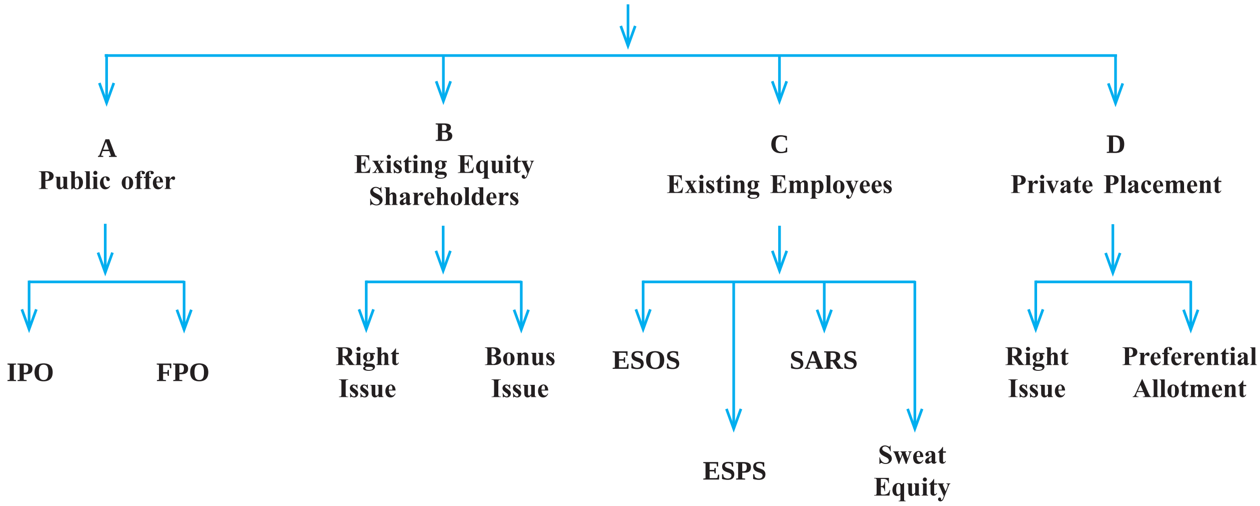
In case a company wants to raise capital by selling shares, it can issue :

a) Preference shares

b) Equity shares or ordinary shares

3.3 METHODS OF ISSUE OF SHARES :

METHODS OF ISSUE OF SHARES :



(A) Public Issue or Public offer of Shares : Public Issue or offer means offering the shares to the public. This is the most common method used by companies. The company invites the public to subscribe for its shares by issuing prospectus.

A company can use two pricing methods to offer shares to the public.

(a) Fixed Price Issue Method : Under this method, the company states in its prospectus, the quantity and the price at which the shares are offered to the public. The subscribers / investors are asked to pay a certain portion of face value of shares or entire issue price along with the application. The company comes to know the demand of its shares only after the subscription period ends. Company can issue shares at par or premium. Fixed Price method is used for all types of issues i.e. Public Issue, Right Issue, ESOS, etc.

Additional Information :

Issue of Shares At a Premium :

When a company issues shares at a price above the face value of a share, it is called as issue of share at premium. e.g. a share having a face value of ₹ 100 is issued at ₹ 150. ₹ 50 is the premium earned by the company and this has to be put in a separate account called as Securities Premium Account. The premium cannot be considered as profit and so cannot be used for distribution of dividend.

The Companies Act has not laid any restrictions on issue of shares at premium. However, it has imposed following conditions for utilisation of the Securities Premium Account :

(i) it can be used for issuing fully paid up Bonus Shares.

(ii) to write off preliminary expenses of the company.

(iii) to write off commission paid or discount allowed or expenses incurred on issue of shares or Debentures.

(iv) to pay premium on redemption of any Redeemable Preference shares or Debentures.

(b) Book Building Method : Under this method, the issuer company determines the number of shares and the issue price at which its shares will be sold by bidding process. The company issues a Red Herring Prospectus which contains price range or price band and asks the investors to bid on it. The lower end of the price band is called as 'floor price' while the highest end is called as 'cap price' or 'ceiling price'. The final price at which shares are offered to the investors is called as 'cut-off' price. Investors can bid any numbers of shares that they are willing to buy at any price within the price band. Bidding is kept open for 5 days. The bids along with the application money is to be submitted to the Lead Merchant Bankers called as 'Book Runners' who enters the bids in a book. After bidding is over, company fixes 'cut off price' based on the highest or best price at which all shares on offer can be sold. Company issues a Prospectus which contains the final price. Book Building Method is used for Public issues i.e. IPO and FPO.

Lead Merchant Bankers : *Institutions engaged in issue management either by making arrangement to buy or sell securities of an Issuing company or act as manager or provide advisory services.*

Issue of Shares at Discount :

Companies Act, prohibits a company to issue its shares at discount. However, it may be allowed in certain exceptional cases like when shares are issued to its creditors when the debts are converted into shares under a restoration or debt restructuring scheme as per RBI or Banking Regulation Act, 1949.

A company can make Public offer through two methods as follows :

Methods of Public Offer

IPO **FPO**

1) **Initial Public Offer (IPO) :** Initial Public Offer refers to the process of offering shares of a company to the public for the first time. A new company or an existing company which had raised its capital earlier from promoters or other investors may offer its shares to the public when it is in need of fresh funds. The first time, the company offers its shares to the public is called as Initial Public offer.

Before IPO, a company is not a listed company and its shares are privately held. But after IPO, a company becomes a listed company and its shares can be bought and sold by investors in the open market.

A company can make IPO through fixed price Issue method or Book-Building method.

2) **Further Public Offer or Follow on Public Offer (FPO) :** When a company issues shares to the public after an IPO, it is called as further (Follow on) public offer. Thus, every issue of shares by a listed company after its IPO is called as FPO. FPO leads to an increase in the subscribed capital of a company.

(B) Offering Shares to Existing Equity Shareholders : A company can raise funds by offering shares to its existing Equity shareholders as follows –

Issue of shares to existing Equity shareholders

Rights Issue **Bonus Shares**

1) **Rights Issue :** When a company wants to raise further capital, it can issue shares to its existing Equity shareholders in proportion to their existing shareholding. Such an issue of shares is called as 'Rights Issue' of shares.

Whenever a company makes further issue of shares, the existing Equity shareholders have 'pre-emptive rights' to subscribe to the new shares offered by the company.

Pre-emptive Rights : *Means first option to buy.*

A company can make a Rights Issue when it is making a private placement.

Private placement : *When securities are offered to a select group of people.*

Provisions : Company making Rights Issue has to fulfill the following provisions.

a) Rights shares are sold to the existing shareholders at a price which is lesser than its market price.

b) A company has to send 'Letter of offer' to the existing shareholders at the time of issuing Rights shares.

c) The letter of offer shall mention :

i) the number of shares offered

ii) the period of offer i.e. offer is valid for a period not less than fifteen days and not exceeding thirty days from the date of offer.

iii) the right to renounce i.e. the shareholders have a right to give up their shares in favour of any other person.

d) The letter of offer can be sent by registered post, speed post, courier or through electronic mode.

e) If a shareholder does not respond to the Rights Issue offer within the stipulated time, it is implied that he is not interested in the offer and the company can offer the unsold shares to new investors.

> ***Stipulated time :*** *Means specified time.*
>
> ***Implied :*** *Means understood as truth.*

f) The company has to obtain minimum subscription i.e. 90% of the issue.

2) **Bonus Issue / Bonus Shares :** Bonus shares are fully paid shares issued free of cost to the existing equity shareholders in proportion to their shareholdings. Usually financially sound companies issue Bonus Shares out of its accumulated distributable profits or reserves. Hence as the profits or reserves are capitalised, it is also called as 'Capitalisation of Profits or Reserves'.

Provisions : Following are the provisions related to Bonus Issue –

a) A company can issue Bonus Shares only out of :

i) Free reserves or

ii) Securities Premium Account or

iii) Capital Redemption Reserve Account

> ***Securities Premium Account :*** *is an account in which the premium amount collected when shares are sold at premium is kept.*
>
> ***Capital Redemption Reserve Account :*** *is an account in which a company transfers part of its profits to be used for specific purposes. e.g. Issue Bonus Shares.*

b) A company cannot issue Bonus shares out of reserves created by Revaluation of Assets.

> ***Revaluation of Assets :*** *Value of assets recalculated to find out the current value of assets.*

c) It also cannot issue Bonus Shares instead of paying dividend.

d) Once the announcement for Bonus Shares is made by the Board of Directors, it cannot be then withdrawn.

e) Bonus shares are fully paid up shares.

f) Shareholders cannot renounce i.e. give away their Bonus shares to another person.

g) There is no minimum subscription to be collected.

(C) Offering Shares to Existing Employees : A company can raise funds by offering shares to its existing employees as follows –

1) ESOS	3) SARS
2) ESPS	4) Sweat Equity Shares

1) **Employees Stock Option Scheme (ESOS) :** Under this scheme, permanent employees, Directors or officers of the company or its Holding Company or Subsidiary company are offered the benefit or right to purchase the Equity Shares of the company at a future date at a pre-determined price.

ESOS encourages employees as they feel proud to be owners of the company for which they are working and company also benefits as it can retain good employees.

Provisions : Following are the provisions related to ESOS –

a) A company may offer the shares directly to the employees or through an Employee Welfare Trust.

b) The shares are offered at a price lesser than their market price.

c) There is a minimum vesting period of one year.

> ***Vesting Period :*** *Period during which the employee uses his option to apply for shares that has been granted to him.*

d) Usually company will specify the lock-in period i.e. period during which employee cannot sell his shares. Lock-in period is minimum 1 year.

e) Shares issued under this scheme do not enjoy any dividend or voting rights till the employee buys the shares.

f) Company has to get the approval of shareholders through special resolution to issue ESOS.

g) Employee cannot transfer his option to any other person nor can he pledge or mortgage the shares issued under ESOS.

h) Company has to set up a compensation committee to administer ESOS.Company has to fulfill the provisions of SEBI (Share Based Employee Benefits) Regulations, 2014.

> ***Pledge :*** *Give shares as a security for taking a loan.*
> ***Mortgage :*** *Convey title to shares as security to a lender for taking a loan.*

2) **Employee Stock Purchase Scheme (ESPS) :** Under this scheme the company offers Equity shares to its employees at a discounted price which they can buy at a future date. The company deducts a certain amount from the salary of the employee towards the payment for the shares.

Provisions : Company must fulfill the following provisions –

a) Different number of shares can be offered to different categories of employees.

b) Shares issued through ESPS should be immediately listed.

c) ESPS shares will have a minimum of one year lock-in period from date of allotment if ESPS is not a part of public issue.

d) Company has to fulfill the provisions of SEBI (Shares Based Employee Benefits) Regulations, 2014.

e) Company has to get the approval of the shareholders through a special Resolution to offer ESPS.

3) **Stock Appreciation Rights Scheme (SARS) :** Under this scheme the employees are given a right to receive appreciation in the value of specified number of shares of the company at a future date. The company allots a specified number of 'Stock Appreciation Right' units that are linked to the value of the company's shares on

the date of allotment. On the relevant date i.e. a future date, depending upon the appreciation in the value of shares which are linked to the SAR units, the employee is paid the appreciation value in cash or through Equity shares.

SARS is a form of bonus compensation given to the employees if the company performs well and its market price of shares goes up.

The employees does not have to pay for buying any shares. Company has to give employees a vesting period of minimum one year to exercise his option. There is no lock-in period for SARS. To issue SARS, company has to get approval of shareholders through a special resolution.

4) **Sweat Equity Shares :** These are shares issued by a company to its directors or employees at a discount or for consideration other than cash. It is issued in recognition of their valuable contribution to the company which has resulted in increased profits.

Sweat Equity shares rank pari passu with other Equity shares. These shares have a lock-in period of three years i.e. they cannot be transferred during this period. Company has to get the approval of shareholders through Special Resolution to issue Sweat Equity shares.

> ***Pari Passu :*** *means on 'equal footing' i.e. will be treated at par with other Equity Shares.*

(D) Private Placement : When a company offers its securities to a select group of persons not exceeding 200, it is called as Private Placement.

> ***Securities :*** *Means shares, bonds, debentures, etc.*

In other words, company offers its securities only to identified persons and not to the general public.

- The Board of Directors selects or identifies the persons to be included in the select group. They can be Mutual Funds, Institutional Investors, etc.
- Company has to issue private placement offer letter along with the application.
- The shares offered can be fully or partly paid up and the consideration should be paid by cheque, Demand Draft, etc. but not by cash.
- Right to renunciation is not given to applicants under Private Placement. Company has to get approval of shareholders through a Special Resolution.
- A company can make Private Placement in two ways :

Rights Issue **Preferential Allotment**

1) **Rights Issue :** (We discussed the same under the heading 'offering shares to Existing Equity shareholders.' on page 44)

2) **Preferential Allotment :** When a company issues specified securities i.e. Equity shares or securities that can be converted into Equity shares in future, to a select group of persons on preferential basis, it is called as 'Preferential Allotment'.

Usually the company offers preferential allotment to promoters, existing shareholders, employees, venture capitalists, etc.

The shares offered are fully paid up and the applicants have to pay the consideration in cash. Shares issued under preferential allotment have no voting rights. Approval of shareholders in the form of Special Resolution is needed to make Preferential allotment. Companies usually go for Preferential Allotment as it is not only less time consuming but also involves less paperwork and formalities.

Venture Capitalists : *are institutions who provide capital to companies which has high growth potential in future. They usually buy the company's equity shares.*

Additional Information :

Private Placement	Preferential Allotment
1) Securities are offered to select group of persons not exceeding 200.	1) Selected securities i.e. Equity Shares or securities that can be converted into equity shares is offered to a select group of persons on preferential basis.
2) The shares offered through private placement can be fully paid up or partly paid up.	2) The shares offered are fully paid up.
3) Private placement offer letter is issued when shares are offered.	3) No such document is issued.

- **Buy Back of shares / securities :**

Buy Back means when a company purchases its own shares or other specified securities at a price higher than its market price.

Company can Buy Back from

existing shareholders on a proportionate basis of their shareholding

Open market

existing employees who were issued ESOS or Sweat Equity Shares

Company can Buy Back its shares only when it has sufficient balance in (i) Free Reserves or (ii) Securities Premium Account or (iii) Proceeds of issue of any other shares.

Companies go for Buy Back of shares for various reasons such as to return surplus cash to its shareholders, safeguard company against unwelcome takeover bids, etc.

3.4 ALLOTMENT OF SHARES :

Meaning :

When a company gives shares to an applicant based on the application submitted, it is called as Allotment of Shares.

Supreme court has defined allotment as "the appropriation out of the previously unappropriated capital of the company of a certain number of shares to a person."

> ***Appropriate :*** *distribute*
>
> ***Un-appropriate :*** *undivided, whole.*

Thus as per this definition, Allotment of shares means allocating (giving) certain number of shares by Board of Directors out of the previously unallocated capital of the company to persons who have applied for the shares.

The company issues prospectus and application form. Applicant (subscribers) fills the form and submits it, with application money to the company's bankers. The Board of Directors approves the acceptance of such applications in the Board meeting by passing resolution. This is called as allotment of shares.

The Board of Directors has the power to allot shares.

Under the Companies Act, 2013, following companies have to issue shares (securities) in dematerialised form :

i) A company making a public offer in excess of Rs. 10 crores.

ii) Unlisted Public companies for its new issues with effect from 10th Sept. 2018.

iii) Such other class or classes of companies as may be prescribed.

Any other company can issue its shares in any form. Also the companies have the freedom to convert its shares into dematerialised form at any point of time. Companies issuing shares in dematerialised form has to comply with the provisions of the Depositories Act, 1996 and regulations issued there under.

3.4.1 Provisions or Conditions for Allotment of Shares :

Every company issuing shares has to comply with the provisions of the Companies Act, 2013 with regard to allotment of shares.

A public company has to also follow the Companies (Prospectus and Allotment of Securities) Rules, 2014 and SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.

For Allotment of Shares, a company has to fulfil following :

A) Statutory Provisions

B) General Principles

(A) Statutory Provisions : These are provisions laid down by the Companies Act, 2013.

(1) Registration of Prospectus : A copy of the prospectus must be filed with the Registrar of Companies for registration on or before the date of its publication. This prospectus must be signed by every proposed Director (in case of newly formed company) or director or his duly authorised advocate.

(2) Application Money : The Companies Act states that along with the application form, the applicant has to pay a minimum of 5% of the nominal amount of the shares or such other amount as specified by SEBI. SEBI has specified (for public companies) the application money to be minimum 25% of the nominal amount of shares. The application money is to be paid in the Bank specified by the company.

(3) **Minimum Subscription :** Minimum subscription is the minimum amount of shares that must be taken or bought by the subscribers. This amount is mentioned in the prospectus. It must be collected within thirty (30) days from issue of prospectus.

SEBI has stated minimum subscription should be 90% of the issue.

(a) Usually when a company does not collect minimum subscription, it means its issue has been under subscribed i.e. the number of shares applied for is less than the shares offered by the company.

(b) If minimum subscription is not collected within the specified time, the entire amount received as application money should be returned to the subscribers within fifteen days of closure of issue. To avoid such a situation, company may enter into an underwriting agreement with the underwriters.

> ***Underwriting agreement :*** *Company enters into an agreement with underwriters by paying them a commission. The underwriters assure the company to take up the unsold shares (Securities) so that the company is able to raise its minimum subscription.*

(4) **Closing of subscription list :** As per SEBI, the subscription list must be kept open for atleast three working days and not more than ten working days. Applicants can apply for shares only when the subscription list is open.

(5) **Basis of allotment :** Allotment of shares will be on the basis which will be decided for each category of subscribers. Allotment will be as per the minimum application size as fixed by the company.

(6) **Over subscription :** Over subscription means when applications received for shares are more than the number of shares offered by the company.

SEBI does not allow any allotment in excess of securities offered through offer document or prospectus. However, it may permit to allot not more than 10% of the net offer.

(7) **Permission to deal on Stock Exchange :** Every company, before making a public offer shall apply to one or more recognised Stock Exchanges to seek permission for listing its shares with them. The prospectus shall mention the name of the Stock Exchange and the fact that an application for permission to list in that stock exchange has been made by the company.

> ***Listing :*** *getting the name of a company included in the official list of securities that can be traded on a Stock Exchange.*

(8) **Appointment of Managers to the issue and various other agencies :** Company has to appoint one or more Merchant Bankers to act as managers to the public issue. It also has to appoint Registrar to the issue, Collecting Bankers, Underwriters to the issue and Brokers to the issue, self certified syndicate banks, advertising agents etc.

> ***Registrars to the issue -*** *Institution that keeps a record of shareholders, debentureholders on behalf of a company.*
>
> ***Self certified syndicate banks -*** *Banks certified by SEBI which can offer ASBA facility to investors. (ASBA - refer pg 52 point 4)*

(B) General principles : These are rules that a company must follow in addition to the provisions of the Companies Act, 2013.

(1) **Proper Authority :** The Board of Directors or the allotment committee set up by the Board has the authority to allot shares.

(2) **Allotment must be against application only :** A company can allot shares only if it has received a written application for shares from the applicant.

(3) **Reasonable time :** As per the Act, allotment shall be done within 60 days of receipt of application money. Allotment can be made from the fifth day from date of issue of prospectus.

(4) **Absolute and Unconditional allotment :** Shares should be allotted on the same terms as stated in the prospectus and application form. No change in the terms of allotment or new conditions can be added at the time of allotment.

(5) **Communication :** Company has to inform the applicant that shares have been allotted to him by sending a letter of allotment or allotment advice. This letter gives details of number of shares allotted, amount of Allotment money to be paid, etc.

(6) **Allotment should not be in contravention (violation) of any other laws :** A Company cannot allot shares by violating or contradicting any other existing laws. e.g. Shares cannot be allotted to a minor.

If a company allots shares after fulfilling all the above mentioned requirements or provisions, such an allotment is called as 'Regular Allotment'. But if even one provision is not satisfied, then it is called 'Irregular Allotment' and such allotment is invalid.

3.4.2 Procedure for Allotment of Shares :

Allotment of shares means distributing shares to those applicants who have submitted a written application along with the application money.

Following is the procedure for allotment of shares :

(1) **Appointment of Allotment Committee :** When the subscription list is closed the Secretary informs the Board of Directors to make preparations for allotment of shares.

If the issue is par subscribed or under subscribed, the Board can do the allotment of shares. But if the issue is over subscribed, the Board has to appoint an Allotment Committee to undertake the work of allotment. The Allotment Committee will decide the basis of allotment and submit a report to the Board.

(2) **Hold Board Meeting to Decide Basis of Allotment :** Board Meeting is held to approve the allotment formula suggested by the Allotment Committee. A representative of SEBI is also present when the allotment committee prepares the allotment formula. If the shares are listed, the formula has to be also approved by the authorities of the concerned stock exchange.

Once the allotment formula is approved, the application and allotment list is made. This list contains the names of the allottees i.e. the applicants who will be allotted shares. The list has to be signed by the Chairman and Secretary.

(3) **Pass Board Resolution for Allotment :** At the board meeting, a resolution is passed to allot shares. The resolution also authorises the Secretary to issue letters of allotment and letters of regret.

Secretary has to send Letter of Allotment to allottees i.e. those applicants whose names appear in the application and allotment list. Secretary has to send Letter of Regret to those applicants to whom no shares have been issued. Along with the letter of regret, the application money is also refunded. Company which issues shares in electronic mode, does not issue Allotment Letter to individual applicants. Company informs the respective Depository i.e. NSDL or CDSL about the allotment of shares. It provides the Depository with the details of applicants who have been allotted shares, number of shares allotted, etc.

(4) **Collection of Allotment Money :** The letter of allotment states the money to be paid by the applicant on allotment of shares. The money has to be paid in the Bank specified by the company within the stipulated time.

For all public issues and Rights Issue (from Jan. 2016) ASBA is mandatory.

> ***ASBA :*** *Application Supported by Blocked Amount. It is an application made by an applicant to his bank to block the application money in the bank account. In case of allotment, the application money or the full issue value of the shares is transferred to the company's banker.*

(5) **Arrangement Relating to Letters of Renunciation :** An applicant who has been allotted shares can renounce the shares in favour of another person. The applicant has to fill up a form for renunciation and submit it with the original copy of the letter of allotment to the company. After approval from the Board, Secretary enters the name of the new allottees in the application and allotment list.

> ***Renounce :*** *give up, relinquish.*

(6) **Arrangement Relating to Splitting of Allotment Letters :** Sometimes, the applicant who has been allotted shares can request for splitting of allotment letters. Splitting means putting the shares in one or more name. After getting the approval of the Board for the splitting, Secretary enters the details of the split in the list of split allotments. Secretary has to also issue split letters.

(7) **File Return of Allotment :** Secretary has to file a 'Return of Allotment' with the Registrar of companies within 30 days of allotment of shares. The return of allotment contains details of allotment of shares including the names and addresses of allottees, value of shares allotted, amount paid or payable on each shares, etc.

(8) **Prepare Register of Members and Issue Share Certificate :** Secretary has to enter the names of all those applicants who have paid the allotment money in the Register of Members.

Secretary also has to prepare the Share Certificates and distribute it to all the members within two months of allotment of shares.

In case of shares held in electronic form (dematerialised), the entries of applicants are made by the Depository.

3.5 SHARE CERTIFICATE

It is a registered document issued by a company which is an evidence of ownership of specified number of shares of the company. Share certificate is a prima facie evidence of title to shares.

If any dispute about membership arises, the share certificate will be held as evidence and not the entries in the Register of Members.

Share certificate has to be issued under the common seal of the company, if any and signed by two Directors duly authorised by the Board of Directors and the Company Secretary or any other authorised person.

Company has to issue the share certificate to all allottees as well as transferees on transfer of shares. It is issued on partly or fully paid up shares.

Contents of Share Certificate :

Share certificate should be in Form SH-1 as prescribed under Companies (Share Capital and Debenture) Rules, 2014.

Following are the contents of a share certificate –

i) Name of the Company, CIN, Registered office address.
ii) Folio Number
iii) Share Certificate Number
iv) Name of Member
v) Nature of share, number of shares and distinctive number of the shares.
vi) Amount paid on shares
vii) Common Seal, if any and signature of two Directors and Company Secretary.

Time of issue of Share Certificate -

Time	To whom
i) Within two months from date of incorporation	to subscribers of the Memorandum of Association.
ii) Within two months from date of allotment	to allottees in case of allotment of shares.
iii)Within 1 month from date of receipt of instrument of transfer or intimation of transmission	to the transferee in case of transfer of shares and to the legal representative in case of transmission of shares.

For listed companies, share certificate should be issued within fifteen days from date of receipt of transfer request.

Duplicate Share Certificate : A company can issue duplicate share certificate if :

i) Original share certificate has been defaced, mutilated or torn and is surrendered to the company.

ii) It has been proved by the holder that the original share certificate is lost or destroyed.

In case of loss of share certificate, the company puts up a notice in the newspapers to announce the loss of the Share Certificate and asks the finder, if any, to return it to the company. If company does not get any response from the public, within the specified time, then the company can issue a duplicate Share Certificate.

Duplicate share certificate should be issued within three months from date of application. Company issues it only to registered shareholders. The duplicate Share Certificate should state in bold that it is a 'Duplicate Share Certificate'. Company has to pay heavy penalty if it has issued duplicate share certificate with the intent to defraud.

3.6 CALLS ON SHARES

At the time of issue of shares, a company may state that the issue price of the shares is to be paid in instalments as and when the company demands for it. So when a company demands the shareholder to pay a part or full amount of the balance amount unpaid on shares, it is called as 'Calls on Shares'.

Thus, besides the application money and allotment money, if a company demands the balance unpaid amount on shares, it is called as calls on shares. The unpaid amount on partly paid up shares is a liability of the share holder. If the shareholder fails to pay the calls, company can forfeit the shares.

Calls can be made only by the Board of Directors in the interest of the company. Company has to send a call letter/notice to the shareholders asking them to pay the call money and give them minimum 14 days notice to pay the call money to the Company's Banker. No call can be made for more than 25% of the nominal value of shares. The gap between two calls should not be less than one month from the date fixed for the payment of last preceding call. The rules and procedure to make calls are given in the company's Articles of Association.

3.7 FORFEITURE OF SHARES

If a shareholder fails to pay calls on shares within a certain period, the Board of Directors, if authorised by the Articles of Association, can forfeit i.e. take away the ownership of a member. This is called as forfeiture of shares. Only partly paid up shares can be forfeited

Board can forfeit shares only in the interest of the company. Company has to send a notice of forfeiture to the concerned member. The notice must give minimum 14 days period from the date of service of notice, to make the payment along with interest.

A company can reissue forfeited shares as these shares belong to the company. Reissue of forfeited shares is not the same as allotment of shares. On reissue, if company gets more money than the calls which was due, the excess amount is paid to the member. The Board can cancel forfeiture under certain circumstances provided the member requests the Board before it is reissued.

Effects of forfeiture

i) **Cessation of Membership :** On forfeiture, a member ceases to be member of a company and loses all membership rights. The member's name is removed from the Register of Members.

ii) **Liability of member :** A member is liable for unpaid calls even after forfeiture of shares. The liability ceases only when the company reissues the forfeited shares.

iii) **Liquidation of company :** If a company goes in for liquidation within one year of forfeiture of shares, the member whose shares have been forfeited is liable to pay the calls as a past member.

3.8 SURRENDER OF SHARES

This means voluntary return of shares by the member to the company for cancellation. Surrender of shares is allowed only if there is no other option but to forfeit the shares. Only partly paid up shares can be surrendered.

Surrendered shares can be reissued in the same way as forfeited shares. The Articles of Association of a company must provide for surrender of shares.

Surrendering of shares leads to reduction of capital, hence companies avoid surrender of shares.

3.9 TRANSFER OF SHARES

Transfer of shares means voluntary transfer of shares by a member of a company in favour of another person. A member may transfer the shares for consideration or give it away as gift. Every member has a right to transfer their shares.

In case of public companies, shares are freely transferable subject to the provisions of the Articles of Association. Whereas, in case of Private Company, there are restrictions on free transfer of shares.

A member has to apply to the company for transfer of shares by filling the 'Instrument of Transfer' and submit the share certificate along with the required transfer fees. Member who is transferring the shares is called as 'Transferor' and to whom the shares are to be transferred is called 'Transferee'.

A member can sell either a part or entire shares held by him.

Transfer is said to be completed only when transfer is registered in the Register of Members. Under Depository System, transfer of shares is automatically done on the basis of delivery against payment. Once the shares are transferred, the liability of the transferor ends.

Stamp duty has to be paid on transfer of shares in physical form but in demat form, no stamp duty is payable.

Stamp duty : *As per the Indian Stamp Act 1899, a tax is payable to the Central Government when transfer deed is executed. Stamp duty is 0.25% on the market value of the shares as on date of execution of the transfer.*

Refusal to transfer shares :

Board of Directors has the authority to refuse registration of transfer of shares. A notice of refusal giving the reasons for refusing transfer by the Board is to be sent to the member within thirty days from the date on which the Instrument of transfer was delivered to the company.

The Board may refuse registering the transfer under following conditions :

i) When the provisions for transfer of shares as given in the Articles of Association is not fulfilled by the member.

ii) When the instrument of transfer is not as per the rules prescribed under the Companies Act.

iii) When the Instrument is not accompanied by the Share Certificate.

iv) When the company has a lien on the shares to be transferred.

A member may appeal to the NCLT against the refusal by the Board within a period of thirty days from date of receipt of refusal notice. If no notice is received, the member can appeal within 60 days in case of a Private Company and within 90 days in case of a Public Company.

Blank Transfer : When a member signs the Instrument of transfer without filling in the name of the transferee and hands it over to the transferee along with the share certificate, it is called 'Blank Transfer'.

Blank transfer enables easy purchase and sale of shares as the blank transfer form can be sold any number of times. The intermediate buyers need not pay Stamp Duty. A holder of Blank transfer form enjoys all rights a member is entitled to have.

Forged Transfer : Forged transfer is where the signature of the transferor is forged. Company should not register such transfer of shares.

3.10 TRANSMISSION OF SHARES

Transmission of shares takes place due to operation of law i.e. the shares of a member are automatically transferred to another person on the death, insolvency or insanity of a member. Thus transmission of shares is an involuntary action. There is only one party i.e. Legal Heir who initiates the process of transmission. The legal heir or official receiver need not pay any consideration for the shares. Original liability of the member continues incase of transmission. There is no need to submit Instrument of Transfer or pay stamp duty.

***Operation of law** - Change or transfer as per existing laws and not due to any agreement.*

Following diagram shows to whom the shares will be transferred in case of transmission.

Event	To whom transferred
i) Death of member	to the legal heir of member
ii) Insanity	to the guardian of member.
iii) Insolvency	to official receiver appointed by court.

Activity :

Visit www.sebi.gov.in to view public issues related Draft offer Document filed by a company with SEBI.

3.11 DISTINCTION BETWEEN :

1. Initial Public Offer and Further Public Offer

Points	Initial Public Offer	Further Public Offer
1. Meaning	IPO refers to an offer of securities by an unlisted Public Company to the public for the first time.	FPO means an offer of securities by a listed Public Company to the public to raise subsequent capital.
2. Type of issuer company	It is issued by an unlisted Public Company.	It is issued by a listed Public Company.
3. When issued	It is usually issued by an existing company which wants to raise capital from the public for the first time.	It is usually issued by a listed Public company when it wants to raise further capital from the public.
4. Order of issue	IPO preceeds FPO. IPO is the first time sale of shares to the public.	FPO is always done after IPO. FPO is the second or subsequent sale of shares to the public.

Points	Initial Public Offer	Further Public Offer
5. Listing	Company has to get itself listed for the first time before issuing IPO.	Company making an FPO is already a listed company.
6. Risk	It is very risky for the investor as he cannot predict the company's performance.	It is less risky for the investor as he has an idea of the company's past performance and can judge its future performance.

2. Fixed Price Issue Method and Book Building Method.

Points	Fixed Price Issue Method	Book Building Method
1. Meaning	Under this method, the issue price of shares is mentioned in the prospectus and investors have to buy shares at that price only.	Under this method, the issue price is determined by a bidding process. The investors are given a price band and are asked to bid at a price within the band. This way company arrives at a price at which it will sell its shares.
2. Price of Shares	The exact price of shares is known in advance and it is mentioned in the prospectus.	The price of shares is not known in advance. Only the minimum price and maximum price at which the company is willing to sell the shares is known in advance.
3. Prospectus	Company has to issue a prospectus and it contains the details of price at which shares are offered and the total number of shares offered by the company.	Company issues a Red Herring Prospectus. It contains only the price band and the total size of issue.
4. Determination of Demand	Company comes to know the public demand for its shares only after closure of the issue	Company can know the public demand for its shares everyday. The bids are registered in the book everyday till the closure of the issue.
5. Payment of Application Money	Application money or entire money has to be paid by the investor at the time of submitting his application for shares.	Only application money has to be paid at the time of bidding. Money will be collected only after the issue price has been fixed.
6. When Used	It can be used for any issue i.e. Public Issue, Rights Issues, ESOS, etc.	It is usually used in Public issues i.e. IPO and FPO.

3. Rights Shares and Bonus Shares :

Points	Rights Shares	Bonus Shares
1. Meaning	In rights issue, shares are offered to the existing equity shareholders i.e. Company offers the shareholders the first option to buy the shares of the company.	Bonus shares are issued to the existing equity shareholders free of cost.
2. Payment	Subscribers have to pay for the Rights Shares. Company only gives them a right to buy these shares.	Bonus shares are issued free of cost to the shareholders.
3. Partly / fully paid up shares	Shareholders have to pay for these shares as Application Money, Allotment, Call Money etc. till the full money on shares is paid up.	Bonus shares are fully paid up shares. So no money has to be paid by the shareholders to the company.
4. Minimum Subscription	Company has to obtain minimum subscription. If the company fails to receive minimum subscription, it has to refund the entire application money received.	There is no minimum subscription to be collected as Bonus shares are issued free of cost by the company.
5. Right to Renounce	The shareholders can renounce his shares.	Shareholders cannot renounce his bonus shares.
6. Purpose of Issue	Rights issue is done by a company when it wants to raise fresh funds but wants to give a chance to their existing members to increase their shareholding.	When company has accumulated huge profits or reserves and company wants to reward its existing Equity shareholders, company issues Bonus shares.

4. Transfer of Shares and Transmission of Shares :

Points	Transfer of Shares	Transmission of Shares
1. Meaning	Transfer of shares means voluntarily or deliberately giving away one's shares to another person by entering into a contract with the buyer.	It means transfer of ownership of a member's shares to his legal representative due to operation of law. It takes place on death, insolvency or insanity of the members.
2. When done	It is done when the member wants to sell his shares or give his shares as gift.	It is done when the member dies or becomes insolvent or insane.

Points	Transfer of Shares	Transmission of Shares
3. Nature of Action	It is a voluntary action taken by the member.	It is an involuntary action. It is due to operation of law.
4. Parties involved	In transfer of shares there are two parties involved- the member who is called as transferor and the buyer who is called as transferee.	There is only one party e.g. the nominee of the member in case of death of the member or the legal representative.
5. Instrument of transfer	Transfer requires Instrument of transfer. It is a contract between the transferor and transferee.	No Instrument of transfer is needed.
6. Initiated by	Transferor initiates the transfer process.	Legal representative or official receiver initiates the process of transmission.
7. Consideration	Transfer of shares is done often by the member to receive some consideration (money) i.e. the buyer has to pay for the shares. (Except given as gift.)	No consideration is involved here. The legal heir or official receiver need not pay for the shares.
8. Liability	The liability of the transferor ends after the shares are transferred.	Original liability of the member continues in case of transmission of shares.
9. Stamp Duty	Stamp duty as per the market value of shares has to be paid.	No stamp duty is to be paid

SUMMARY

- Share capital refers to the capital made up of Equity Shares and Preference Shares.
- Share capital can be classified as :
    i) Authorised / Nominal / Registered Capital - Means maximum capital authorised by Memorandum of Association that a company can collect.
    ii) Issued and Unissued Capital : Issued capital refers to capital offered by a company to the investors. Unissued Capital is part of authorised capital not offered to the public.
    iii) Subscribed and Unsubscribed Capital : Subscribed capital is the capital bought by the investors. Unsubscribed capital refers to the capital not subscribed by investors.
    iv) Called up capital and Uncalled capital : Called up capital means the amount demanded by the company on shares issued by it. Uncalled capital means amount on shares not demanded by company.
    v) Reserve Capital - Capital which is called up (demanded) only at the time of winding up of a company.
    vi) Paid up capital and Calls in arrears : Paidup capital is the amount actually paid by the shareholders. Amount not paid by the shareholder is called as calls in arrears.

- Methods of issue of shares :
  - **Public Issue -** Means shares offered to public by a company through prospectus.
  - **Fixed price Issue Method -** the price of shares is stated in the prospectus.
  - **Book Building Method -** the price of shares is determined through a bidding process. Red Herring prospectus is issued.
  - **Initial Public Offer -** A new company or an existing company offering its shares to the public for the first time.
  - **Further Public Offer -** when a company issues shares to the public after an IPO.
  - **Rights Issue/Shares -** When a company wants to raise further capital and first offers the shares to its existing Equity shareholders.
  - **Bonus Issue/shares -** are fully paid up shares issued free of cost to the existing Equity shareholders.
  - **Employees Stock Option Scheme (ESOS) -** Scheme wherein permanent employees, directors, etc. are offered the right to purchase equity shares at a price lower than the market price but at a future date.
  - **Employee Stock Purchase Scheme (ESPS) -** Company offer shares at a discounted price but the price of shares is deducted on a regular basis from employee's salary.
  - **Stock Appreciation Rights Scheme (SARS) -** Scheme where the employees are given a right to receive appreciation in value of specified number of shares of the company at a future date.
  - **Sweat Equity Shares -** are shares issued to directors or employees at a discount or for consideration other than cash.
  - **Private Placement -** Company offers its securities to a select group of persons not exceeding 200.
  - **Preferential Allotment -** Company offers Equity shares or securities convertible into Equity shares to a select group of persons on preferential basis.
- **Allotment of Shares -** Means distributing shares to those applicants who have submitted the share application form along with the application money.
- **Share Certificate -** is a document issued by company to every shareholder. It is evidence of title to shares.
- **Calls on shares -** When a company demands the members to pay the balance unpaid money on shares besides the Application Money and Allotment Money.
- **Forfeiture of Shares -** means forcefully taking away of shares of a member for not paying Calls on Shares. It leads to cessation of membership.
- **Surrender of Shares -** When a member voluntarily gives away shares to the company as the member is not able to pay calls on Shares.
- **Transfer of Shares -** when a member voluntarily transfers shares to another person for monetary reasons or gives it as a gift to another person.
- **Transmission of shares -** When transfer of shares takes place due to death, insolvency or insanity of a member.

EXERCISE

Q.1 A) Select the correct answer from the options given below and rewrite the statements.

1. .... refers to capital made up of Equity and preference shares

   a) Share capital   b) Debt capital   c) Reserve fund

2. .... capital refers to maximum capital a company can raise by issuing shares.

   a) Issued   b) Authorised   c) Paid up

3. .... means shares are offered to the public.

   a) Rights Issue   b) Private Placement   c) Public Issue

4. Under .... method, issue price of shares is based on bidding.

   a) Book Building   b) Fixed Price   c) Bonus Issue

5. In ...., shares of a company are offered to the public for the first time.

   a) Further Public Offer   b) Initial Public Offer   c) Public Offer

6. .... is offered to existing equity shareholders.

   a) IPO   b) ESOS   c) Rights Issue

7. Bonus shares are issued free of cost to ....

   a) existing Equity shareholders   b) existing employees   c) Directors

8. .... are offered to permanent employees, Directors and Officers of a company.

   a) Bonus Shares   b) Rights Issue   c) ESOS

9. Under ...., a company offers its securities to a select group of persons not exceeding 200.

   a) Private Placement   b) IPO   c) Public Offer

10. The .... have the power to allot shares.

    a) Director   b) Board of Directors   c) Company Secretary

11. Letter of .... is sent to applicants who have been given shares by the company.

    a) Regret   b) Renunciation   c) Allotment

12. .... is a proof of title to Shares.

    a) Share Certificate   b) Register of Member   c) Letter of Allotment

13. The gap between two calls should not be less than ....

    a) 14 days   b) One month   c) 21 days

14. Company can .... shares on non-payment of calls.

    a) forfeit   b) surrender   c) allot

15. Voluntarily giving away one's share to another person is called as .... of shares.

    a) Transfer   b) Transmission   c) Surrender

16. .... of shares takes place due to operation of law.

    a) Forfeiture   b) Allotment   c) Transmission

B) (I) Match the pairs.

Group 'A'		Group 'B'	
a)	Death of member	1)	Forfeiture of shares
b)	Voluntary return of shares to company by member	2)	Book Building Method
		3)	Offered to existing employees
c)	Issue Price of shares mentioned in prospectus	4)	Surrender of shares
		5)	Transmission of shares
d)	ESPS	6)	Non-allotment of shares
e)	Regret Letter	7)	Offered to existing Equity shareholders
		8)	Transfer of shares
		9)	Fixed price issue method
		10)	Allotment of shares

B) (II) Match the pairs.

Group 'A'		Group 'B'	
a)	Issued capital	1)	Non-payment of calls
b)	FPO	2)	Any issue after IPO
c)	Bonus shares	3)	Offered to existing employees
d)	Issued within two months of allotment of shares	4)	Capital offered to public to subscribe
		5)	Share certificate
e)	Forfeiture of shares	6)	First time issue of shares
		7)	Free shares issued to existing equity shareholders
		8)	Maximum capital a company can raise
		9)	Allotment Letter
		10)	Operation of law

C) Write a word or a term or a phrase which can substitute each of the following statements.

1. Capital collected by way of issue of Equity and Preference shares.
2. Part of issued capital subscribed by investors.
3. Capital that will be collected only at the time of winding up of a company.
4. Highest bid price in Book Building method.
5. Offering of shares by a company to the public for the first time.

6. Subsequent issue of shares after an IPO.
7. Pre-emptive right given to existing Equity shareholders to subscribe to new issue of shares by company.
8. It is also called as 'Capitalisation of Profits'.
9. Appropriation of shares to an applicant.
10. Committee set up to decide the formula for allotment of shares in case of over subscription.
11. Minimum amount to be collected from subscribers within thirty days of issue of prospectus.
12. Document which is a prima facie evidence of ownership of certain shares of a company.
13. Penal action taken by company on non-payment of calls.
14. Person to whom transferor is transferring the shares.
15. Transfer of shares due to operation of law.

D) State whether the following statements are true or false.

1. Only fully paidup shares can be forfeited.
2. The member transferring shares is called as transferor.
3. Share certificate is issued for partly or fully paid up shares.
4. Allotment of shares must be done within one month of receipt of application money.
5. Sweat Equity shares are offered to Directors or employees of a company.
6. Bonus Shares are issued at a discounted price to the Equity shareholders.
7. Floor price is the highest bid price under Book Building method.
8. Calls not paid by shareholder is called as calls in arrears.
9. Shares not offered to the public for subscription is called as subscribed capital.
10. Authorised capital is mentioned in capital clause of Memorandum of Association.

E) Find the odd one.

1. Authorised capital, Equity share capital, Issued capital, Paidup capital.
2. ESOS, ESPS, Rights Shares, Sweat Equity.
3. Floor Price, Cap price, Cut-off price, Face Value.
4. Bonus shares, Rights Shares, ESOS.
5. Allotment of shares, Forfeiture of shares, Surrender of shares.

F) Complete the sentences.

1. Share capital refers to capital made up of Equity shares and ....
2. Reserve capital is part of ....
3. Transfer of shares due to death, insolvency or insanity of member is called ....
4. The two parties involved in transfer of shares are transferor and ....
5. Voluntarily giving up of shares by a member due to inability to pay calls is called as ....

6. Company can forfeit only .... paid shares.
7. In case the original Share Certificate is torn or mutilated, company can issue ....
8. In case of transfer of shares, company has to issue to the transferee a new share certificate within ....
9. Letter sent to applicants for informing them shares are allotted is called as ....
10. When applications received are more than the number of shares offered, it is called as ....
11. In Book Building Method, the final price at which shares are offered to investors is called as ....
12. Shares issued free of cost to existing Equity shareholders is called as ....

G) Select the correct option from the bracket.

Group 'A'		Group 'B'	
a)	Public offer of shares	1)	....
b)	....	2)	Initial Public offer
c)	Rights Issue	3)	....
d)	....	4)	ESOS
e)	Operation of law	5)	....

(First time offer of shares to public, Shares offered to public, Shares offered to existing Equity shareholders, Shares offered to existing employees, Transmission of shares)

H) Answer in one sentence.

1. When does transmission of share take place ?
2. Name the parties involved in transfer of shares.
3. What is the time limit to issue share certificate on allotment of shares ?
4. What is the time limit for filing Return of Allotment with the Registrar on allotment of shares ?
5. When can a company forfeit shares ?
6. What is a share certificate ?
7. What is the minimum application money to be collected by company as per the Companies Act ?
8. With whom should the prospectus be filed before issuing it to the public ?
9. What is meant by private placement ?
10. To whom is Sweat Equity Shares offered by a company ?
11. To whom can a company issue Bonus Shares ?

12. What is the subsequent issue after IPO called as ?
13. Name the method under which the issue price of shares is fixed through a bidding process.
14. What is Public Issue ?
15. Name the capital which is mentioned in the capital clause of Memorandum of Association.

I) Correct the underlined word/s and rewrite the following sentences.

1. Issued capital is the maximum capital which a company can raise by issuing shares.
2. Under Fixed price issue method, the price of shares is fixed through bidding process.
3. FPO refers to offering of shares to the public for the first time.
4. Only fully paid up shares can be forfeited.
5. Bonus shares are offered to existing employees of a company.
6. Company enters into an underwriting agreement with the shareholders.
7. Letter of Allotment is sent to applicants when no shares are allotted to them.
8. Duplicate share certificate must be issued within one month from date of application.
9. Call money cannot exceed 5% of nominal value of shares.

J) Arrange in proper order.

1. a) Forfeiture of shares.
   b) Calls on shares.
   c) Allotment of shares.
2. a) Share certificate
   b) Allotment letter
   c) Application form
3. a) Return of allotment
   b) Application form
   c) Minimum subscription

Q.2 Explain the following terms/concepts.

1. Transmission of shares
2. Bonus shares
3. Allotment of shares
4. Employees Stock Option Scheme
5. Surrender of shares
6. Sweat Equity shares
7. Share certificate
8. Authorised capital
9. Forfeiture of shares
10. Paidup capital
11. Calls on shares
12. Subscribed capital
13. Minimum subscription
14. Transfer of shares
15. Initial Public Offer
16. Blank transfer
17. Further Public Offer
18. Forged transfer
19. Rights Issue
20. Private placement

Q.3 Study the following case/situation and express your opinion.

1. Eva Ltd. Company's capital structure is made up of 1,00,000 Equity shares having face value of ₹ 10 each. The company has offered to the public 40,000 Equity shares and out of this, the public has subscribed for 30,000 Equity shares. State the following in ₹.

   a) Authorised capital

   b) Subscribed capital

   c) Issued capital

2. TRI Ltd. Company is newly incorporated public company and wants to raise capital by selling Equity shares to the public. The Board of Directors are considering various options for this. Advise the Board on the following matters :

   a) What should the company offer - IPO or FPO ?

   b) Can the company offer Bonus Shares to raise its capital ?

   c) Can the company enter into Underwriting Agreement ?

3. Silver Ltd. Company has recently come out with its public offer through FPO. Their issue was over subscribed. The Board of Directors now wants to start the allotment process. Please advise the Board on :

   a) Should the company set up allotment committee ?

   b) How should the company inform the applicants to whom the company is alloting shares ?

   c) Within what period should the company issue share certificate ?

4. Red Tubes Ltd. has made a demand on its shareholders to pay the balance unpaid amount of ₹ 20/- per share (having a face value of ₹ 100) held by them. The company has sent letters asking the shareholders to pay the money to its Bankers within the specified time.

   a) Are the shareholders liable to pay ₹ 20 for the shares held by them ?

   b) Name the letter sent by the company to its shareholders asking them to pay ₹ 20/-

   c) What happens if a shareholder fails to pay the money within the specified time ?

5. X owns 100 shares while Y owns 500 shares of Red Tubes Ltd. The company has asked all its shareholders to pay the balance unpaid amount of ₹ 20. X pays the full money demanded by the company. Y, who is in a bad financial position is unable to pay any money.

   a) Can the company forfeit the shares of Y ?

   b) Can the company forfeit the shares of X ?

   c) Can X transfer his shares ?

Q.4 Distinguish between the following.

1. Initial Public Offer and Further Public Offer
2. Fixed Price Issue and Book Building

3. Rights Shares and Bonus Shares
4. Transfer of Shares and Transmission of Shares

Q.5 Answer in brief.

1. What is Book Building Method ?
2. State the provisions for Rights Issue.
3. State the provisions related to Bonus Shares.
4. State the general principles / rules for allotment of shares.
5. State the contents of Shares Certificate.
6. What are the effects of forfeiture of shares ?
7. When can the Board of Directors refuse transfer of shares ?
8. Explain Employee stock option scheme.
9. What is calls on shares ?
10. What is transfer of shares ?

Q.6 Justify the following statements.

1. Company has to fulfill certain provisions while making Right Issue.
2. To issue Bonus Shares, a company has to fulfill certain provisions.
3. ESOS is offered by a company to its permanent employees, Directors and Officers.
4. Company has to fulfill general principles/rules for allotment of shares.
5. A company can issue duplicate share certificate.
6. Board of Directors have the authority to forfeit shares.
7. A member of a Public company can transfer shares.
8. The Board of Directors can refuse transfer of shares.

Q.7 Answer the following questions.

1. Explain the classification of share capital.
2. Explain the two methods a company can use to make its public offer of shares.
3. Explain briefly the different types of shares offered by a company to its existing Equity shareholders.
4. Explain the statutory provisions for allotment of shares.
5. Explain briefly the procedure for allotment of shares.

❑❑❑