Question 3. What do you mean by the term 'share? Discuss the type of shares, which can be issued under the Companies Act, 1956 as amended to date.
Answer: The capital of a company is divided into a number of equal parts. Each part is called a share. A company may divide its capital into shares of ? 10, ? 50, ^100 or any suitable amount, but it is always preferable to have shares of small denomination in order to bring them within the reach of small investor.
According to Lord Lindley, “The portion of capital to which each member is entitled to his share”. In this way, share is proportionate part of the share capital and forms ownership in a company.
According to Companies Act, 1956 there are two types of shares
(i) Preference Share Preference Share is one which carries the following two rights
(a) They have a right to receive dividend at a fixed rate before any dividend is paid on the equity shares
(b) On the winding up of the company, they have right to return of capital before the capital returned on equity shares.
However, not with standing the above two conditions, a holder of the preference share may have a right to share fully or to a limited extent in the surplus of the company as specified in the Memorandum or Articles* of the company.
(ii) Equity Share Under Indian Companies Act 1956, ‘an equity share is share which is not preference share’. Thus, this share does not carry any preferential right or in other words, equity share is one which is entitled to dividend and repayment of capital after the claim of preference shares is satisfied. Usually the equity shareholders control the affairs of the company and hence right to all the profits after the preference dividend has been paid.

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