Share capital

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Description of Module

Items	Description of Module
Subject Name	Law
Paper Name	Corporate Finance
Module Name /Title	Share capital
Module No.	V

Share capital:

Objective: After reading this module, the learners will have a clear picture of :

As per corporate finance theory Capital means share capital of the company.

Learning Outcomes:
A share is a share capital of company. Share capital means the capital raised by a company by the issue of shares. Share capital is not a condition to incorporate of a company. But the memorandum states the amount of capital will introduced by the members or subscribers.

Introduction:
In accounting Capital means the amount invested in a business. In economic theory Capital means capital goods that is production, money available for Investment etc. As per corporate finance theory Capital means share capital of the company.
Case Citation: **Tervor v Whitworth (1887) 12 A.C 409)** in this case the capital explained for a sole trader capital is a balancing the amount in excess of assets over liabilities. A sole trader withdraws the capital from his business. But in case of company shareholders cannot withdrawal the capital however share holders can withdraw the dividends from the profit.

Share Capital: A share is a share capital of company. Share capital means the capital raised by a company by the issue of shares.
Companies Limited by shares: Companies limited by guarantee and unlimited companies may or may not have share capital but companies limited by shares must have share capital.

Classification of Capital:

i Authorized Capital or Nominal capital or Registered Capital: The amounts of capital stated in the memorandum of association at the time of registration is called authorized capital. There is no legal limit to extend of authorized capital. The authorized capital is the maximum amount which the company authorized to raise by way of public subscription.

Ii Issued Capital: The amount of capital which is actually issued to the public is known as issued capital. In other words issued capital is the part of the authorized capital.

Iii Subscribed Capital: It is the part of the issued capital for which applications are received from the public is called the subscribed Capital.

Iv Called-up Capital: It is that part of the allotted share capital which has been called up by the company.

v Uncalled Capital: It is that part of the allotted share capital which has not been called up by the company.

Vi Paid-up-Capital: This is the part of the issued capital which has been paid up by the shareholders.

vii. Reserve Capital: It is the part of uncalled capital which has been reserved by the company to be called in the event of the company winding up.

Power of limited company to alter its Share Capital (sec.61):

1. **Increase of authorized:** share capital by such amount think fit.
2. **Consolidate and divide:** all or any of its share capital into shares of a large amount of its **existing share.**
3. **Convert:** Convert all or any of its fully paid up shares into stock and reconvert that stock into fully paid-up shares.
4. **Sub-divided: Sub divided** its shares or any of them into shares of smaller amount than it's fixed by the memorandum.

Notice to be given to Registrar for alternation of Share capital (Sec.64):

The company company shall file notice in the prescribed form with the Registrar within a period of thirty days of such alternation or increase or redemption as the case may be along with an altered memorandum.

Further issue of share capital (sec.62):

1. **Existing share holders:** Where at any time a company having a share capital proposes to increase its subscribed capital by issue further shares. The offer should make to the existing share holders of the company.
2. **Employees Stock:** Employee's stock option subject to special resolution passed by company.
3. **Any Person:** Any person if it is authorized by special resolution.

Share Capital and Variation of Rights:

1. Control of Director: The capital of the company shall under the control of the Directors who may **issue allot or otherwise dispose** of the same or issue either at a premium may from time to time think fit.

2. **Certificate:** Every person whose name is entered as a member in the Register of the member shall be entitled to receive a certificate.

3. **Lost of Certificate:** If any share certificate is lost or destroyed then new certificate may be issued.

4**. Comission:** The rate of amount of the commission shall not exceed the rate or amount or prescribed in rule made under Sub-Section (6 of section 40.).

Nature and Classes of Shares

Shares: Shares are different divided units of the total share capital of a company. Thus, a share is a fractional part of the share capital. The persons who contribute money through shares are called shareholders. The Capital of a company is divided into a number of small units. Each unit is called a share and stated in the memorandum of Association. A share is not a sum of money but is an interest or right to participate the profit made by the company. The classes of shares in which the company's capital is to be divided, along with their respective rights and obligations, is prescribed by the Articles of Association of the company.

Future of the Share:

(i)Share is a part of the authorized share capital

Ii Share is a moveable and transferable property.

Iii it is serially numbered in the share certificate.

ivThe share holders does not rights over the assets of the company.They have the right to share in the profit of the company and bear the losses to the extend.

According to section 2(84) of the companies Act 2013, 'Share' means a share in the share capital of a company and it includes stock.

Kinds of Share Capital (Sec.43):

The share capital of a company limited by shares shall be two kinds namely:

(i)Equity share Capital:

(ii)Preference share

(i)Equity share Capital:

Preferential Right: An equity share is a share which is not a preference share. In other words, shares which do not enjoy any preferential right in the payment of dividend or repayment of capital are termed as equity/ordinary shares.

Dividend Rights of the Preference Shareholders: The equity shareholders are entitled to share the distributable profits of the company after satisfying the dividend rights of the preference share holders.

Divident: The dividend on equity shares is not fixed and it may vary from year to year depending upon the amount of profits available for distribution. If profit high dividend will high if profits are small gets smaller dividend. So the value of shares in the market will rise when the company pay high dividend.

Profit &Loss: There is a chance of making capital profit and making of capital loss both will enjoy by the equity share holders.

Voting rights: Equity share holders enjoy wide voting rights at the meeting.

(ii) Preference Shares: (i) it carries a preferential right to dividend to be paid either as a fixed amount payable to preference shareholders or an amount calculated by a fixed rate of the nominal value of each or repayment of any capital before any dividend is paid to the equity shareholders.

(ii)**Winding Up:** On the winding up of the company, the preferential right to the repayment of capital before anything is paid to equity shareholders.

Iii **Fix dividend:** The rate of dividend payable is fixed

Iv **Voting Right**; do not enjoy the voting Rights.

V **Higher Dividend:** They can't get the higher dividend when the company makes large profits.

Difference between Preference Shares and equity:

1The Nominal value of preference shares is relatively higher. it is usually Rs.100

The Nominal value of equity shares is generally low.It is Rs 10 or less.

2.Pref: Fixed dividend

Equity. Not fixed

3.Pref. issue Redeemable preference share

Equity: Cannot issue redeemable equity share

4 Pref.: first pad dividend

Equity: after preference share paid

5Pref.: First right to receive back their capital

Equity: Next to preference share

6 Pref.:No voting Right

Equity: Voting Right

Pref.: Purchase to receive Regular Income

1. Equity: Purchase to Bear risk.