

Share and Share Capital



Meaning of the term “Capital”

The term ‘Capital’ has a variety of meanings. It may mean one thing to an economist, another to an accountant, while another to a businessman or a lawyer. A layman views capital as the money, which a company has raised by issue of its shares. It uses this money to meet its requirements by way of acquiring business premises and stock-in-trade, which are called the fixed capital and the circulating capital respectively.

CLASSIFICATION OF SHARE CAPITAL

- 1) Nominal, Authorised or Registered Capital:- Such capital as is authorised by the memorandum of a company to be the maximum amount of share capital of the company.
- 2) Issued Capital:- Such capital as the company issues from time to time for subscription. It is that part of the authorised or nominal capital which the company issues for the time being for public subscription and allotment
- 3) Subscribed Capital:- Such part of the capital which is for the time being subscribed by the members of a company. It is that portion of the issued capital at face value which has been subscribed for or taken up by the subscribers of shares in the company. It is clear that the entire issued capital may or may not be subscribed

4) Called-up Capital:- Such part of the capital, which has been called for payment. It is that portion of the subscribed capital which has been called up or demanded on the shares by the company

According to Section 2(84) of the Companies Act, 2013,'share' means a share in the share capital of a company and includes stock.

Nature of Share:-

(a) A share is a right to a specified amount of the share capital of a company

(b) A share is a right to participate in the profits made by a company, while it is a going concern.

c) share is movable property

Types of Share Capital

Share Capital is of two kinds- Preference Share Capital and Equity Share Capital.

“equity share capital”, with reference to any company limited by shares, means all share capital which is not preference share capital

“preference share capital”, with reference to any company limited by shares, means that part of the issued share capital of the company which carries or would carry a preferential right with respect to

- 1) a) payment of dividend
- 2) b) repayment, in the case of a winding up

cumulative preference share:- a preference share whose annual fixed-rate dividend, if it cannot be paid in any year, accrues until it can.

Non-cumulative preference shares are those shares that **provide the shareholder fixed dividend amount each year from the company's net profit** but in case the company fails to pay the dividend on such preference share to the shareholder in any year then such dividend cannot be claimed by the shareholder in future.

Participating shares are eligible to “participate” in the growth of the company and be permitted to receive dividends. Non-participating shares do not benefit from the equity growth of the company

Convertible and non-convertible pref shares possess an option or right whereby they can be converted into an ordinary equity share at some agreed terms and conditions. Non-convertible does not have this option.

Equity Share Capital:- All share capital, not falling within the above description of preference capital, is equity share capital, which has no guaranteed amount of dividend but carries voting rights. Some illustrative rights attached to the equity shareholding are as under: l Right to vote l Right to receive dividends l Right to transfer freely without any restriction. Equity capital is also known as “Common Stock” or common share capital that represents ownership in a company. Common share capital is generally divided into units known shares. These unit holders are called equity shareholders. They are the real owners of the company and policy makers of the company. However, they do not have access to the day to day affairs of the company. They appoint their representatives called board of directors to look after the affairs of the company. Equity shareholders are entitled to vote on resolutions of the company, get a return by way of dividend if declared and take part in surplus in assets of the company at time of winding-up.