Class - B.Com Part - II

Subject : Corporate Accounting

paper : IV

Topic : Issue of Shares

Lecture sequence No : 1.

unit : 1.

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Issue of Shares:

Share Capital means the amount that a company receives towards Share Capital from issue of shares, both Equity Shares and Preference Shares.

Share is a unit in which capital of the company is divided. Each share has its nominal (face) value. Holders of these shares are called Shareholders or Members of the Company.

Issue of shares is the process in which companies allot new shares to shareholders. Shareholder allot new shares to shareholders. Shareholder can be either individual or corporates. The company follows the rules presribed by Companies Act 2013 while issuing the shares.

A shares of a company is one of the units into which the capital of a company is divided. So if the total capital of a company is 5 lakhs and such capital is divided into 5000 units of Rs 100 each, then this one unit of amount 100 is a share of a company. Thus a shares is the basis of ownership of the company. And the person who holds such share and is thus a member of the company is known as a shareholder.

Kinds or Classes of Shares:

Section 43 of the Companies Act 2013 prescribes that Share Capital of a Company broadly can be of two types.

① Preference shares
② Equity Shares:

① Preference Shares [Section 43(b)

Preference shares are the shares which carry the following two preferential rights:

(i) Preferential right to receive dividend, to be paid as fixed amount or an amount calculated at a fixed rate, which may either be free of or subject to income tax, before it is paid to Equity shareholders; and.

(ii) Right to receive repayment of capital on the winding up of the company before that of equity shares.

Classes of Preference Shares:

* Preference Shares can be broadly classified as follows:

With Reference To Dividend	With Reference To Participation in Surplus Profit	With Reference To Convertibility	With Referen to Redem ption.
* Cumulative	* Participating	* Convertible	* Redeem
* Non Cumulative Preference shares	* Non Participating Preference Shares	* Non Convertible Preference Shares	* Irredeem Shares

With Reference to Dividend :

(i) Cumulative Preference Shares :

Cumulative shares are those shares on which the arrears of dividend accumulate. If in any year, the company does not earn sufficient profit dividend on preference share may not be paid for that year. In case of cumulative preference shares such unpaid dividend is treated as arrear. The arrears of dividend will accumulate. Such accumulated dividends will be payable out of the profits of the subsequent years. Dividend of equity shares can be paid only after the payment of such arrears.

(ii) Non Cumulative Preference Shares :

Non-cumulative preference shares are those shares on which arrear of dividend do not accumulate as per Articles of Association. If there are no profits in any year, the arrears of dividend can not be claimed in subsequent years by this type of shareholder. In fact, if the dividend on such shares are not paid by the company during a particular year, the right to claim dividend lapses.

With Reference to Participation in Surplus Profit :

Participating Prefence Shares and Non-Participating Preference Shares :

(i) Participating Preference Shares :

The Articles of Association of a company may provide that after dividend has been paid to the Equity shareholders holder of Preference Shares will also have right to participate in the remaining profit. The Preference Shares carrying this right are called Participating Preference Shares.

Non-Participating Preference Shares:

Preference Shares which do not carry the right to participate in the profit remaining after Equity shareholder have been paid dividend are Non-Participating Preference Shares.

With Reference to Convertibility:

Convertible Preference Shares and Non Convertible Preference Shares:

Convertible Preference Shares:

Convertible Preference Shares are those Preference Shares which carry a right to be converted into Equity Shares.

Non Convertible Preference Shares:

Non-Convertible Preference Shares are those Preference Shares which do not carry a right to be converted into Equity shares.

With Reference to Redemption:

Redeemable Preference Shares and Irredeemable Preference Shares.

Redeemable Preference Shares:

Redeemable Preference Shares are those Preference Shares which are redeemed by the company at the time specified (not exceeding 20 years from the date of issue) for their repayment or earlier. The repayment of amount is termed as Redemption.

Irredeemable Preference Shares:

Irredeemable Preference shares are those Preference shares the amount of which can be returned by the company to the holders of such shares when the company is wound up.

The Companies Act 2013 does not permit issue of Irredeemable Preference Shares.