

Meaning of Shares

Total Capital of the Company is divided into units of small' denominations. Each such unit is called 'share'.

For example, if the total capital of the Company is 50,00,000 divided into 5,00,000 units of 10 each, each unit of 10 will be called a share (of 10 each). Thus, in the above case the Company has 5,00,000 shares of 10 each. Shares must be numbered so that they may be identified.

Nature of Shares: The shares of a Company are movable property, transferable in the manner provided by the Articles of Association of the Company. Shares of a Company are treated as goods under the Sales of Goods Act, 1930. These can be bought, sold, hypothecated and bequeathed.

Types of Shares : Under Section 43 of the Companies Act, 2013, a Company may issue two types of shares

- (1) Preference Shares
- (2) Equity Shares

(1) Preference Shares : Preference Shares are those which carry the following two rights

- They have a right to receive dividend at a fixed rate before any dividend is paid on the equity shares.
- When the company is wound up, they have a right to the return of capital before that of equity shares.

In addition to the above, the preference shares may carry some more rights such as the right to participate in excess profits when a specified dividend has been paid on the equity shares or the right to receive a premium at the time of redemption.

Types of Preference Shares

Preference shares, also known as preferred stock, are a class of shares that provide shareholders with a fixed dividend, prior to any dividend payments made to equity shareholders. Here are the various types of preference shares, each with distinct characteristics:

1. Cumulative Preference Shares

Definition: These shares entitle holders to recover any unpaid dividends from previous years before dividends are paid to equity shareholders.



CBSE



ICSE



NTSE



Banking & Insurance



Central Govt. Service



State Govt. Services



LAW Entrance



MBA Entrance



Railways & Metro Services

...many more

abhyasonline.in



Course
&
Test Series

Advance Accounting - Module 2



CBSE



ICSE



NTSE



Banking &
Insurance



Central Govt.
Service



State Govt.
Services



LAW
Entrance



MBA
Entrance



Railways & Metro
Services

...many more

abhyasonline.in

Key Feature: If a company does not have sufficient profits to pay the dividend in any year, the unpaid dividend accumulates and must be paid out in the future when the company has sufficient profits.

Example: A company declares a 5% dividend on cumulative preference shares. In the first year, it cannot pay the dividend. In the next profitable year, it must pay the 5% dividend for both years before any dividend is paid to equity shareholders.

2. Non-cumulative Preference Shares

Definition: Holders of these shares receive a fixed dividend from the profits of each year, without the right to claim any unpaid dividends in future years.

Key Feature: If no dividend is declared in a particular year, the shareholders do not receive any dividend, and they cannot claim it in subsequent years.

Example: If a company with non-cumulative preference shares does not declare a dividend in a year due to insufficient profits, the shareholders forfeit the dividend for that year.

3. Participating Preference Shares

Definition: These shares provide holders the right to receive a fixed dividend and also participate in surplus profits after dividends have been paid to equity shareholders.

Key Feature: In addition to the fixed dividend, holders may receive additional dividends if the company has extra profits.

Example: If the company declares a surplus profit after paying equity shareholders, holders of participating preference shares might receive a share of this surplus.

4. Non-participating Preference Shares

Definition: These shares only entitle holders to a fixed rate of dividend every year and do not allow participation in surplus profits.

Key Feature: Holders receive only the fixed dividend and no additional benefits from surplus profits.

Example: Holders of non-participating preference shares receive their fixed dividend regardless of the company's extra profits.

5. Redeemable Preference Shares

Definition: These shares will be repaid by the company within a specified period, as per the terms of issuance and in compliance with Section 55 of the Companies Act, 2013.

Key Feature: They have a maturity date on which the company repays the principal amount.

Example: A company issues redeemable preference shares that will be redeemed after 10 years from the date of issue.





CBSE



ICSE



NTSE



Banking &
Insurance



Central Govt.
Service



State Govt.
Services



LAW
Entrance



MBA
Entrance



Railways & Metro
Services

...many more

abhyasonline.in

6. Irredeemable Preference Shares

Definition: These shares cannot be refunded before the company is wound up. However, Section 55 of the Companies Act, 2013, prohibits the issuance of irredeemable preference shares.

Key Feature: Capital invested in these shares remains in the company until its winding up.

Example: Historically, some companies might have issued irredeemable preference shares, but such practices are no longer allowed under current laws.

7. Convertible Preference Shares

Definition: Holders of these shares have the right to convert their preference shares into equity shares at a specified time or under specified conditions.

Key Feature: Provides flexibility to convert into equity shares, potentially benefiting from future growth.

Example: A holder of convertible preference shares may choose to convert them into equity shares if the company performs well, benefiting from the appreciation in equity share value.

8. Non-Convertible Preference Shares

Definition: These shares do not provide the option to convert into equity shares.

Key Feature: Holders can only receive the fixed dividends and repayment of the principal amount, without conversion benefits.

Example: Non-convertible preference shares maintain their status and benefits throughout their tenure without changing to equity shares.

9. Equity Shares

Definition: Equity shares represent ownership in a company and entitle holders to a share of the residual profits after preference dividends are paid.

Key Feature: Dividends on equity shares are not fixed and depend on the company's profitability. Equity shareholders have voting rights and control over company decisions.

Example: If a company makes substantial profits, equity shareholders receive higher dividends. If profits are low or non-existent, they might receive no dividends. Equity shareholders also have voting rights on major company decisions, unlike preference shareholders who usually do not have voting rights.

