Email ID – jpgc_vns@yahoo.in

Jagatpur Post Graduate College

Jagatpur – Varanasi – 221302

Affiliated to – Mahatma Gandhi Kashi Vidyapith

Varanasi - 221002

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Dr. Kripa Shankar Singh

Email. ID kripa.jpgc@gmail.com

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Dr. Kripa Shankar Singh

Topic – Share and it's kind.

Share Meaning and Definitions →

A share is a unit used as mutual funds, limited partnerships, and real estate investment trusts the owner of shares in the company is a shareholder of the corporation. A share is an indivisible unit of capital expressing the ownership relationship between the company and the shareholder.

Share is unit of equity ownership interest in a co operation that exist as a financial assets providing for an equal distribution in any residual profits. If any are declared in the form of dividend. Shareholders may being enjoy capital gains if the value of the company rises.

Thus it can be say that the capital of a company is divided into different units with a definite value called shares. The holders of those shares are called shareholders.

Types of shares

There are two types of shares which a company may issue, namely, Equity shares and preference shares.

1. ***Equity shares*** → Those shares are equity shares or common shares which are not preference share. In practical equity shareholders have the right to take dividend out of profits after payment of dividend to preference shareholders. Equity shareholders have the voting right and it will be proportionate to one`s share of the paid up equity capital.

    According to section 43 of companies act 2013 new issues of equity share capital may be of two types.

1. With voting rights and,
2. With differential rights as to dividend, voting and or otherwise.

Equity share represent the ownership of a company and capital raised by the issue of such shares is known as ownership capital or owner`s funds. They are the foundation for the creation of company. Equity shareholders paid on the basis of earnings of the company and do not get a fixed rate of dividend. They are referred to as residual owners. They received what is left after all other claims on the company`s income and assets have been settled. Through their right to vote, these shareholders have a right to participate in the management of the company.

2. ***Preference shares*** → Preference share are those shares which have a preferential right for payment of dividend and payment of capital over other classes of shares. Preference shareholders have right to get a fixed rate of dividend and also have no voting rights in the company meeting.

    Different types of preference shares→

    There are many types of preference shares prevalent in India, enumerated below.

    1. ***Cumulative preference shares*** → Cumulative preference shares have a provision that allows investors to be paid dividends in arrears. It so happens that a company doesn`t have the financial capacity to pay cumulative dividends in the next coming year. Sometimes, interest earned by the shareholders on arrow dividends is also given to these shareholders.
    2. ***Non - Cumulative preference shares*** → These types of shareholders are eligible to be paid dividends only from a years

profit. Dividends are paid only from net profits of each year. In case there is no profit accumulated for a particular year then the arrears of dividends can not be claimed in subsequent year.

3. ***Participating preference shares*** → Normally preference shares are entitled to get a fixed rate of dividend to every years, but sometimes these shareholders are also entitled to participate in that surplus profits which remains even after the payment of dividend to equity shareholders. These type of preference shares are called participating preference shares. These shareholders may have right to share the surplus assets of the company, when its winding up. An investor should buy participating preference shares when he believes that a company is likely to have a very strong earning.
4. ***Non - Participating preference shares*** → The holders of non participating preference shares are entitled only to a fixed rate of dividend and do not have any share in the surplus profit. The surplus profit of the company will be distributed only to the equity shareholders. Preference shares are non participating in nature unless and until expressed in the memorandum of the article.
5. ***Redeemable preference shares*** → preference shares which can be redeemed offer a fixed period or after giving a certain notice are called a redeemable preference shares. These share can be issued by those company which are authorized by the articles of association. It is to be noted that as per section 55(2) of companies act, 2013, a company can issue preference shares which are liable to be redeemed within a period not exceeding 20 years. A redeemable preference share is good for the company. These act as a hedge against future inflation and when the monetary rate declines in the country.
6. ***irredeemable preference shares*** → These shares are a perpetual liability, which can not be redeemed during the life time of the company. Now such type of share can not be issued in India.
7. ***Convertible preference shares*** → These shares are the type of preference shares where the holders has the option to convert into the equity share of the company within a certain period of time as agreed in the memorandum.

8. ***Non Convertible preference shares*** **→** These shares do not carry the right of convertible into the company`s equity shares.
9. ***Preference shares with a callable option*** **→** This is an innovative type of preference share available in the Indian capital market. The preference share holder with a callable option, the issuing company has the option to buy back The share at a prefixed price on or before a pre- determined date.
10. ***Adjustable – rate preference shares*** **→** In this type of preference share. The rate of dividend is not fixed. Which depends on current interest rates in the market.

Some type of other preference shares which can be issued by a company →

1. ***Private placement of shares:*** Private placement of shares implies issue and allotment of share to a selected group of persons. Another words , an issue which is not a public issue but offered to a selected group of persons Such as U.T.I. , L.I.C. and banks etc. is called private placement of shares.
2. ***Sweat equity shares*****→** sweat equity shares means such equity shares as are issued by a company to its director or employees at a discount or for consideration. Other than cash, for providing their know how or making available rights or value addition by whatever name called. Intellectual property rights include, trademark, copyright, patent or any other such right.
3. ***Issue of right shares*** **→** A right issue is a primary market offer to the existing shareholders to buy additional shares of the company on a pro-rata basis with in a specified date at a discount price then the current market price.

   It is important to notes that the rights issue offer is an invitation that provides an opportunity for existing shareholders to increase there share holding. it is a right that a share holder may or may not choose to exercise and not an obligation to buy the shares.
4. ***Bonus shares*****→** Bonus shares are shares distributed by a company to its existing shareholders as fully paid shares free of charge. To capitalize a part of the company retained earnings for conversion of its share premium account, or distribution of treasury shares. Issuing bonus shares to the existing shareholders is also called capitalization of profits because it is given out of the profit or reserve of the company.

5. ***Employees stock option plan or ESOP*** → According to section 2(37) of companies act 2013, an option given for employees by the company to purchase or subscribe for equity shares at a future date at a pre- fixed price is called ESOP. It is a voluntary scheme. Normally pre-fixed price is lower than the market price. This scheme is given to maintain the sincerity of the employees and to attract, retain and motivate good and efficient employees. The plan encourage employees to have wider participation in the management.

Short answer type questions

1. What is share?
2. What is bonus share?
3. What is sweet equity shares?

Long answer type questions

1. What is preference share? Explain the types of preference share.

References

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Dr. Kripa Shankar Singh
Assistant Professor
Department of commerce
Jagatpur P.G. College
Jagatpur, Varanasi- 221302

Thank you…