Quadrant II –Notes

Paper Code: COL0413_COLO511

Module Name:SHARE CAPITAL

Meaning and Definition of :

Capital: No companies can possibly function without having its own resources which in commercial terms are called the Capital. It means a particular amount, invested to start a business.

Share Capital: In relation to the Company limited by shares, the term capital means the "Share Capital". It means the capital in terms of shares divided into specified number of shares each having a fixed value. In other words, investment of capital in a public limited company is called share capital. It is raised by a company by issue of shares to the public.

Kinds of Capital

The term Capital with reference to companies may be divided into different kinds as follows:

1. Authorised or Nominal Capital or Registered Capital: This means the sum stated in the memorandum of the company limited by shares or the capital of the company with which it is registered. It is the maximum amount which the company is authorized by issuing shares.

2. Issued Capital: Issued Capital is the nominal value of the shares, which are offered to the public for subscription. A Company does not normally issue all its capital at once, so that issued capital in such a case is less than the authorized capital.

The issued capital can never exceed the authorized capital, it can at the most be equal to the authorized capital which is the case when all the shares have been issued to the public.

3. Subscribed Capital: It is the nominal value of the shares, which have been subscribed.

4. Called up Capital: This is that part of the subscribed capital, which has been called up or demanded on the shares.

5. Uncalled Capital: It is that total amount which is not yet called up or demanded by the Company on the shares subscribed which the shareholders are liable to pay as and when called.

6. Paid Up Capital: The actual amount paid up or credited as paid up on the shares subscribed for and allotted is the paid up capital.

7. Reserve Capital: This is that part of the uncalled capital which cannot be called except in the event and for the purpose of the winding up of the company and thereupon that portion of its share capital shall not be capable of being called up except in that event and for that purposes.

8. Share Capital: The share capital of a company limited by shares may consist of two kinds, namely, (1) Preference Share Capital and (2) Equity Share Capital.

Preference Share Capital means the share capital of a company which fulfills two requirements (i) as regards dividend, it carries preferential rights to be paid a fixed amount or an amount calculated at a fixed rate and

(ii) a preferential right to the repayment of the capital in the event of winding up of the company.

Equity share holders on the other hand, are entitled to residue of the divisible profits, if any, after the preference shareholders have been paid their fixed amount or amount calculated at a fixed rate of dividend.

9. Fixed & Circulating Capital: Fixed capital of the company consists of that part of the paid up share capital which is invested in fixed assets acquired for retention and use. For Eg. Land, buildings, plant and machinery are included in the fixed assets of the company.

Circulating Capital or **Floating Capital** is that part which is invested in acquiring current assets such as bills of exchange, cash, goods in stock etc. These are required for use in day to day business operations of the company and keep on fluctuating.

10. Working Capital: Working Capital is represented by the excess of current assets over current liabilities of a company.

11. Debenture Capital: It is also known as loan capital and is raised by the company by the issue of debentures. In fact it is not capital in true sense of the term but it is mere borrowing. It is also called as Borrowed Capital. It is the money borrowed by the company through issue of debentures and therefore a debt due to the Company. It is for this reason that debenture holders are treated as the creditors of the company.

12. Venture Capital: It is a financial capital provided at early stage to high potential and high risk entrepreneurs to start up companies. It makes money by owning equities in company's investments which usually have novel technology processes, such as information technology, bio-technology, software etc.

Share Warrant

A Public Company, if authorized by its articles, may in respect of fully paid shares, issue under its common seal and with the prior approval of the Central Government, a share warrant stating that the bearer thereof is entitled to its shares specified therein. The payment of future dividends are made by coupons or otherwise. The shares specified in the warrant are transferable like a negotiable instrument by mere delivery of the warrant. A Private Company cannot issue share warrants.

Legal Position of a Share Warrant Holder

When a share warrant is issued in respect of any shares, the company must strike out the name of the member who held the shares from the register of members and enter the following particulars into the register:

1. The fact of the issue of the share warrant

2. A statement of the shares included in the warrant distinguishing each share by its number, and

3. The date of the issue of the share warrant