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EQUITY & PREFERENCE SHARES

SHARES

Section 2(84) In The Company act , 2013 -

“Share means a share in the share capital of a company and includes stock.”

Section 44-Nature of shares or debentures.—

“The shares or debentures or other interest of any member in a company shall be movable property transferable in the manner provided by the articles of the company.”

Section 45. Numbering of shares.—

“Every share in a company having a share capital shall be distinguished by its distinctive number”

Section 2(7) in the Sale of goods , 1930 –

“goods means any kind of movable property other than actionable claims and money and includes stock and shares.”

KIND OF SHARE CAPITAL

The share capital of companies limited by share shall be of two kinds, namely;

- (a) equity share capital;
- (b) Preference share capital.

Here, use of two terms "Shall be" and "and" denote this is a requirement to have both kind of share capital but, according to further reading, company may have zero equity or preference share capital.

EQUITY SHARES CAPITAL

Equity shares are also known as ordinary shares. They are the form of fractional or part ownership in which the shareholder, as a fractional owner, takes the maximum business risk. The holders of Equity shares are members of the company and have voting rights. Equity shares are the vital source for raising long-term capital.

“Equity share capital” means all share capital which is not preference share capital. Equity share capital may be of divided into;

- (i) Equity share capital With voting right; or
- (ii) Equity share capital with differential rights.

This differential rights may have difference related to dividend, voting or otherwise in accordance with rules. The term otherwise bring scope for innovation with in limit of rules. It may be difference related to managing control, power to appoint director, or power to appoint proxy and so on.

LIMITATIONS OF EQUITY SHARES

- Investors who prefer steady income may not prefer equity shares.
- The cost of equity shares is higher than the cost of raising funds through other sources.
- The issue of additional equity shares dilutes the voting power and earnings of existing equity shareholders.
- Many formalities and procedural delays are involved and they are time-consuming processes

PREFERENCE SHARE CAPITAL:

Preference share capital of the issued share capital of the company which carries or would carry a preference right with respect to –

- (a) Payment of dividend, either as a fixed amount or an amount calculated at a fixed rate. Which may be either be free of or subject to income tax; and
- (b) Repayment of amount of share capital or share capital deemed to be paid up, whether or not, there is preferential right specified in the memorandum or article of the company.

This Act does not interfere in rights of preference shareholders who are entitled to participate in the proceeds of winding up before commencement of this Act.

PREFERENCE SHARE

- These are shares which are preferred over equity shares in payment of dividend, the preference shareholders are the first to get dividends if the company decides to distribute or pay dividends.

- Preference shares are shares having preferential rights to claim dividends during the lifetime of the company and to claim repayment of capital on wind up. In case of preference shares, the percentage of dividend is fixed i.e. the holders get the fixed dividend before any dividend is paid to other classes of shareholders.

FEATURES OF PREFERENCE SHARES:

Features of preference shares:

- Preference shares have a wide range of features as corporate emphasize a set of features while issuing them such as:
- Dividends for preference shareholders
- Preference shareholders have no right to vote in the annual general meeting of a company
- These are a long-term source of finance
- Dividend payable is generally higher than debenture interest
- Right on assets when the company is liquidated
- Par value of preference shares
- Fixed-rate of dividend irrespective of the volume of profit gained
- Preemptive right of preference shareholders
- Hybrid security of preference shares because it also bears some characteristics of debentures
- The dividend is not tax-deductible expenditure
- Shareholders also enjoy preferential right to receive dividend

TYPES OF PREFERENCE SHARES

Cumulative Preference Shares:

- Shares having right of dividend even in those years in which it makes no profit are known as cumulative preference shares. In case the companies do not declare dividends for a particular year then they are treated as arrears and are carried forward to next year. When the arrears pertaining to dividend are cumulative in nature and such arrears are cleared before any dividend payment to equity shareholders then it is said to be as cumulative preference shares.

Non-cumulative Preference Shares:

- A non-cumulative preference share does not accumulate any dividend. In case the dividend by the company is not paid then they have the right to avail dividends from the profits earned from the particular year. Dividends are paid only from the net profit of each year. In case there is no profit accumulated for a particular year then the arrears of dividends cannot be claimed in subsequent years.

TYPES OF PREFERENCE SHARES

Participating Preference Shares:

- These shares have the right to participate in surplus profits of the company during liquidation after the company had paid to other shareholders. The preferential shareholders receive stipulated rate of dividend and also participate in the additional earnings of the company along with the equity shareholders.

Non-participating Preference Shares:

- Preference shares having no right to participate in the surplus profits or in any surplus on liquidation of the company are referred to as non-participating preference shares. Here, preference shareholders receive only stated dividend and nothing more.

TYPES OF PREFERENCE SHARES

Convertible Preference Shares:

- These shares are those which are converted into equity shares at a specified rate on the expiry of a stated period. The shareholders have a right to convert their shares into equity shares within a specified period.

Non-convertible Preference Shares:

- The shares that cannot be converted to equity are referred to as non-convertible shares. These can also be redeemed.

TYPES OF PREFERENCE SHARES

Redeemable Preference Shares:

- Redeemable preference shares are referred to as shares that can be redeemed or repaid after the fixed period as issued by the company or even before that.

Non-Redeemable Preference Shares:

- Non redeemable preference shares are referred to as shares that cannot be redeemed during the lifetime of the company.

Difference Between Equity And Preference Share

1. The **rate of dividend** on equity shares may vary from year to year depending upon the availability of profit.preference share holders are paid dividend at a fix rate.
2. Equity share holders cannot get the **arrears of past dividend** . Cummulative preference share holders can get the arears of past dividend.
3. Equity shares cannot be **redeemed** except , under a acheme involving reduction of capital. Preference share can be redeemed as provided by the articles and terms of issue.
   - payment
   - Stock market
   - Interest rates
4. Equity shareholders enjoy **voting** rights.preference shareholders donot have the right to participate in the management of the company.
5. **Payment of dividend** to equity share is made only after paying to preference shares. Preference shares have a preferential right to receive dividend before equity shares.

THANK YOU