

Dr. Durgavati

Institute Of Law , Jiwaji University , Gwalior (M.P.)

Email- durgaadvocate1982@gmail.com

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Unit-III (types of share capital)

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TYPES OF SHARE CAPITAL

WHAT IS SHARE CAPITAL

- Share capital is the money a company raises by issuing common or preferred stock. The amount of share capital or equity financing a company has can change over time with additional public offering.
- The amount of share capital reported by a company includes only payments for purchases made directly from the company. The later sales and purchases of those shares and the rise or fall of their prices on the open market have no effect on the company's share capital.

TYPES OF SHARE CAPITAL

The term "share capital" is often used to mean slightly different things depending on the context. When discussing the amount of money a company can legally raise through the sale of stock, there are several categories of share capital.

❖ REGISTERED, AUTHORISED OR NOMINAL CAPITAL-

The Memorandum of Association of every company has to specify the amount of capital with which it wants to be registered. The capital so stated is called Registered, Authorized or Nominal Capital. The Registered Capital is the maximum amount of share capital which a company can raise by way of public subscription.

TYPES OF SHARE CAPITAL

❖ AUTHORIZED SHARE CAPITAL-

Before a company can raise equity capital, it must obtain permission to execute the sale of stock. The company must specify the total amount of equity it wants to raise and the base value of its shares, called the par value.

❖ ISSUED SHARE CAPITAL-

The total value of the shares a company elects to sell to investors is called its issued share capital. The par value of the issued share capital cannot exceed the value of the authorized share capital.

TYPES OF SHARE CAPITAL

❖ **SUBSCRIBED CAPITAL-**

It is that part of “issued capital” for which applications are received from the public. The subscribed capital is allotted to the respective subscribers as per resolution passed by the directors of the company.

❖ **CALLED UP CAPITAL-**

It is that part of subscribed capital which has been called up by the company. A company does not call at once the full amount on each of the shares it has allotted and therefore, calls up only such amount as it needs.

TYPES OF SHARE CAPITAL

❖ UNCALLED UP CAPITAL-

It is the uncalled portion of the allotted capital and represents contingent liability of the shareholders on the shares.

❖ PAID UP CAPITAL-

It is that part of called up capital against which payment has been received from the members on their respective shares in response to the calls made by the company.

TYPES OF SHARE CAPITAL

❖ RESERVE CAPITAL -

By Reserve Capital we mean that amount which is not callable by the company except in the event of the company being wound up. The company cannot demand the payment of money on the shares to that extent during its life time. Reserve capital may be created by means of a special resolution passed by the company in its General Meeting by three-fourths majority of those voting on it.

When once the Reserve Capital has been so created the company cannot alter its Articles of Association so as to make the reserve liability available at any time. The Reserve Capital cannot be charged as security for loans by the directors. It cannot be turned into ordinary capital without the order of the court. It cannot be cancelled at the time of reduction of capital.

TYPES OF SHARE CAPITAL

❖ **FIXED CAPITAL-**

The fixed capital of a company is what the company retains in the shape of fixed assets such as land and buildings, plant and machinery, furniture, etc.

❖ **CIRCULATING CAPITAL-**

The circulating capital is a part of subscribed capital which is circulated in business in the form of using goods or other assets such as book debts, bill receivables, cash, bank balance, etc.

TYPES OF SHARE CAPITAL

❖ PREFERENCE SHARE CAPITAL-

It means that part of the capital of the company which-

- (a) Carries a preferential right as to payment of dividend at fixed rate during the life time of the company.
- (b) Carries, on the winding up of the company, a preferential right to be repaid the amount of the capital paid up.

❖ EQUITY SHARE CAPITAL-

It means with reference to a company, limited by shares, all share capital which is not preference share capital.

THANK YOU