Meaning of Share Capital

Share capital in company law refers to the total value of funds raised by a company through the issuance of shares to its shareholders. Share capital is also known as shareholders capital, equity capital, contributed capital, or paid-in capital.

Moreover, it is an essential component of a company's capital structure. It plays a crucial role in determining its financial position and investment potential. The funds raised through shareholders' capital can be used by the company to finance its operations, invest in new projects, acquire assets, or repay debts.

Types of Share Capital

Authorized Share Capital

The total capital that a corporation accepts from its investors by issuing shares that are listed in the firm's official documents is known as authorized share capital. Because a corporation is registered with this capital, it is also known as Registered Capital or Nominal Capital.

The limit of Authorized Capital is set by the Capital Clause in the Memorandum of Association, according to Section 2(8) of the Companies Act, 2013. The firm has the authority to take the necessary actions to expand the limit of authorized capital in order to issue more shares, but it is not permitted to issue shares that exceed the limit of authorized capital in any case.

Issued Share + Unissued Share = Authorized Share.

2. Issued Share Capital

The portion of Authorized Share Capital that is issued to the public for subscription is known as Issued Share Capital. Issuance, allocation, or allotment are the terms used to describe the act of issuing shares. To put it another way, Issued Share Capital is the subset of Authorized Share Capital. A subscriber becomes a shareholder after the allotment of shares.

3. Unissued Share Capital

Companies, as previously stated, commonly issue shares from time to time. As a result, their authorized and issued share capital will differ. The difference between the two sums will be the company's unissued share capital. This unissued capital refers to the number of shares that a firm has available to raise capital.

4. Subscribed Capital

The portion of issued capital that has been sold to the public is known as subscribed capital. It is not necessary for the issued Capital to be fully subscribed by the general public. It is the portion of the issued capital for which the corporation has received an application. Let's look at an example: If a firm issues 16000 shares of one hundred rupees each and the public only applies for 12000, the issued capital is Rs 16 lakh and the subscribed capital is Rs 12 lakh. The total number of outstanding and treasury shares is equal to the number of issued shares.

5. Called-Up Capital

Called-up Capital is the portion of the Subscribed Capital that comprises the shareholder's payment. The capital is not given to the company in its whole at once. It makes use of a portion of the subscribed capital when it is required in installments. Uncalled Capital refers to the remainder of the Subscribed Capital.

6. Paid-Up Capital

Paid-up Capital is the portion of Called-up Capital that is paid by the shareholder. The shareholder does not have to pay the sum requested by the corporation. The shareholder may pay half of the called-up Capital, referred to as Reserved Capital, to the company.

7. Uncalled Share Capital

When a company issues shares to its shareholders, it expects them to pay for them. They may, however, choose not to do so. Uncalled share capital refers to shares that have been issued but not yet been claimed. This capital also refers to the shareholders' contingent liabilities. It is the remaining amount after deducting the called-up capital from the total number of shares allotted.

8. Reserve Share Capital

Reserve capital is the amount of stock that a firm can't sell unless it goes bankrupt. These shares are usually issued following a special resolution that receives more than three-quarters of the vote. Companies, likewise, cannot change their articles of incorporation to overturn this choice. Reserve share capital serves a specific purpose: to make liquidation easier.

Reserve capital is subject to a number of restrictions. Companies are unable to use this money as a form of security or convert it to ordinary capital. Companies, on the other hand, can have it overturned by obtaining a special court order. Reserve share capital reflects the capital that will not be available unless the company is liquidated.

9. Fixed and circulating share capital

A company's subscribed capital includes circulating share capital. Operational assets, such as bank reserves, book debts, invoices receivable, and so on, provide this capital. These funds comprise funds used for a company's fundamental operations. Fixed capital, which is made up of a company's fixed assets, is also closely related.

Issue of Shares

Issue of Shares at Premium

The issue of shares at premium refers to the issue of shares at a price higher than the face value of the share. In other words, the premium is the amount over and above the face value of a share.

Usually, the companies that are financially strong, well- managed and have a good reputation in the market issue their shares at a premium. For example, if a company issues a share of nominal or face value of ₹10 at ₹11, it issues it at 10% premium.

A company may call the amount of premium from the applicants or shareholders at any stage, i.e. at the time of application, allotment or calls. However, a company generally calls the amount of Premium at the time of allotment.

Issue of Shares at Discount

In general, share means a portion of a larger thing. Similarly, in real market share is a small proportion of the total amount of capital of the enterprise. Shares form the major source of any company's finance in this present world.

Shares tempt the investors also because it can give huge profits to them unlike the fixed rate of return on debentures. There are various ways or prices at which a company issues its shares like at par, at a premium and at discount.

The issue of shares at a discount means the issue of the shares at a price less than the face value of the share. For example, if a company issues share of Rs.100 at Rs.90, then Rs.10 (i.e. Rs 100—90) is the amount of discount.

It is nothing but a loss to the company. One must remember that the issue of share below the Market Price (MP) but above the Face Value (FV) is not termed as 'Issue of Share at Discount'.

The issue of Share at Discount is always below the Nominal Value (NV) of the shares. The company debits it to a separate account called 'Discount on Issue of Share' Account.

Issue of Shares at Par

The company may issue shares at par i.e. at the face value. The company can demand the whole amount due on the shares in a lump sum or in installments.

Usually, the company calls for the application money and then it calls the balance amount at the time of allotment and calls. A company may open Share Application A/c and Share Allotment A/c separately or a single Share Application and Allotment A/c.

When a Public company invites the public to apply and subscribe to its shares, it needs to issue a Prospectus. Thus, a Prospectus is an advertisement by the company to apply for its shares. It has the share application form attached to it. Hence, when a company issues shares to the public, there are three possibilities:

1. **Full Subscription:** Full Subscription is when the number of shares company offers to the public and the number of shares for which it receives application is the same.
2. **Under Subscription:** Under Subscription is when the number of shares company offers to the public is more than the number of shares for which it receives the application. In this case, a company can make allotment only if it receives the Minimum Subscription. Minimum Subscription is 90% of the total shares that a company offers to the public. In case Company does not receive the amount of Minimum Subscription, it needs to refund the amount of application to the share applicants.
3. **Over-Subscription:** Over Subscription is when the number of shares company offers to the public is less than the number of shares for which it receives the application. In this case, the Company makes pro-rata allotment to the share applicants.

Forfeiture of Shares

Forfeiture of share means the cancellation of the shares for non-payment of calls due. But, the company can forfeit shares only if the Article of Association of the company allow forfeiture. If any shareholder is not able to pay the amount of call, the company may exercise the power to forfeit his shares on which he is unable to pay the amount of call.

As we know, a company can forfeit shares on non-payment of the number of calls. The company before forfeiture must first give clear 14 days' notice to the defaulting shareholder that he shall pay the due amount along with the interest.

If not paid by the specified date, the shares shall be forfeited. If the shareholder still does not pay, the company may forfeit the shares by passing an appropriate resolution.

On forfeiture, we need to cancel the shares and to that extent, reduce the Share Capital. The amount received by the company is not refunded.

Till the time the company re-issues the forfeited shares, it adds the balance of the Forfeited Shares Account to paid-up capital under Subscribed Capital in the Notes to Accounts on 'Share Capital'.

Meaning of Reissue of Shares

When some of the shareholders are unable to pay allotment money or call money, their shares are forfeited by the company. After the forfeiture, the company can reissue the shares. In this type of issue, neither prospectus is issued, nor an offer is made by the company.
The company can reissue the shares of previous allottees at par, at a premium, or discount. Usually, these shares are reissued at a discount (at a price less than the face value of the share).

REDEMPTION OF PREFERENCE SHARES

Section 55 of the Companies Act, 2013 (the Act) prescribes that a company shall not issue an irredeemable preference shares. Further, it also imposes restriction on companies limited by shares to issue preference shares liable to be redeemed at the end of the end of twenty years. However, a company engaged in the setting up and dealing with of infrastructural projects, may issue preference shares for a period exceeding twenty years but not more than thirty years, subject to the redemption of a minimum ten percent of such preference shares from the twenty first year on wards on an annual basis at the option of such preferential shareholders. In terms of the provisions of Section 55 (2) of the Act, redeemable preference shares shall be redeemed out of the profits of the company which would otherwise be available for dividend or out of the proceeds of a fresh issue of shares made for the purposes of such redemption. A Company must have either sufficient profits by way of surplus/ accumulated profits or general reserve or any other free reserve to redeem its preference shares out of profits. In other case, where there is no profit or inadequate profit, a company may issue fresh issue of shares. However, a company may issue share to redeem its preference shares, even it is having sufficient profit.