**Issue of Shares – Equity and Preference Shares**

Issue of Shares is the process in which companies allot new shares to shareholders. Shareholders can be either individuals or corporates. The company follows the rules prescribed by Companies Act 2013 while issuing the shares. Issue of Prospectus, Receiving Applications, Allotment of Shares are three basic steps of the procedure of issuing the shares. The process of creating new shares is known as Allocation or allotment. Let us see the two types of shares of a company and the procedure for issue of shares that a company must follow.

## Nature and Classes of Shares

A share of a company is one of the units into which the capital of a company is divided. So if the total capital of a company is 5 lakhs, and such capital is divided into 5000 units of Rs 100/- each, then this one unit of amount 100 is a share of the company.

Thus a share is the basis of ownership of the company. And the person who holds such shares and is thus a member of the company is known as a shareholder.

Now the Articles of Association will contain some essential information about shares and share capital, like the classes of shares to be prescribed. In all, there are two types of shares a company can allot according to the Companies Act 2013. They have different natures, rights, and obligations. Let us take a look.

## Difference between Equity Shares and Preference Shares



(Source: keydifferences)

### Preference Shares

A preference share is one which carries two exclusive preferential rights over the other type of shares, i.e. equity shares. These two special conditions of preference shares are

* A preferential right with respect to the dividends declared by a company. Such dividends can be at a fixed rate on the nominal value of the shares held by them. So the dividend is first paid to preference shareholders before equity shareholders.
* Preferential right when it comes to repayment of capital in case of liquidation of the company. This means that the preference shareholders get paid out earlier than the equity shareholders.

Other than these two rights, preference shares are similar to equity shares. The holders of preference shares can vote in any matters directly affecting their rights or obligations.

Preference shares can actually be of various types as well. They can be redeemable or irredeemable. They can be participating (participate in further profits after a dividend is paid out) or non-participating. And they may be cumulative (arrears in demand will cumulate) or non-cumulative.

### Equity Shares

Equity share is a share that is simply not a preference share. So shares that do not enjoy any preferential rights are thus equity shares. They only enjoy equity, i.e. ownership in the company.

The dividend given to equity shareholders is not fixed. It is decided by the Board of Directors according to the financial performance of the company. And if in a given year no dividend can be declared, the shareholders lose the dividend for that year, it does not cumulate.

Equity shareholders also have proportional voting rights according to the paid-up capital of the company. Essentially it is one share one vote system. A company cannot issue non-voting equity shares, they are illegal. All equity shares must come with full voting rights.

## Issue of Shares



source: danashultz.com

When a company wishes to issue shares to the public, there is a procedure and rules that it must follow as prescribed by the Companies Act 2013. The money to be paid by subscribers can even be collected by the company in installments if it wishes. Let us take a look at the steps and the procedure of issue of new shares.

## Procedure of Issue of New Shares

### 1] Issue of Prospectus

Before the issue of shares, comes the issue of the prospectus. The prospectus is like an invitation to the public to subscribe to shares of the company. A prospectus contains all the information of the company, its financial structure, previous year balance sheets and profit and Loss statements etc.

It also states the manner in which the capital collected will be spent. When inviting deposits from the public at large it is compulsory for a company to issue a prospectus or a document in lieu of a prospectus.

### 2] Receiving Applications

When the prospectus is issued, prospective investors can now apply for shares. They must fill out an application and deposit the requisite application money in the schedule bank mentioned in the prospectus. The application process can stay open a maximum of 120 days. If in these 120 days minimum subscription has not been reached, then this issue of shares will be cancelled. The application money must be refunded to the investors within 130 days since issuing of the prospectus.

### 3] Allotment of Shares

Once the minimum subscription has been reached, the shares can be allotted. Generally, there is always oversubscription of shares, so the allotment is done on pro-rata bases. Letters of Allotment are sent to those who have been allotted their shares. This results in a valid contract between the company and the applicant, who will now be a part owner of the company.

If any applications were rejected, letters of regret are sent to the applicants. After the allotment, the company can collect the share capital as it wishes, in one go or in instalments.