Procedure for issue of shares

Dr. G. Bright Jowerts,
Assistant Professor in commerce,
St. Xavier's College (Autonomous),
Palayamkottai.

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1)Issue of prospectus
2)To receive applications
3)Allotment of shares
4)To make calls on shares

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Issue of shares at premium

- When shares are issued at an amount more than face value they are said to be issued at premium, for example-share of Rs. 10/ issued at Rs.12/.
- Utilisation of share premium amount---
- Under sec.78 of Indian Co.'s Act---
- To issue fully paid bonus shares
- To w/off preliminary expenses
- Contd.-------

Contd….

- To write off commision paid or discount allowed on shares or debentures of a company
- To pay premium on the redemption of preference shares or debentures of a company
- To buy back its shares
- It’s shown on liability side of b/s under the heading ‘reserve & surplus.’

Issue of shares at discount

- When shares are issued at a price less than face value, it is said to be issued at discount.for example-shares of Rs.10/- issued at Rs.8/- .U/s79 a co. can issue shares at a discount if following conditions are satisfied---
- The shares are of a class which has already been issued.
- Authorised by an ordinary resolution passed at annual general meeting.
- The rate of discount must not exceed 10% of the nominal value of shares.
- One year must have elapsed after commencement.
- Shares to be issued with in 2 months after sanction.
- In B/s shown on asset side under ‘misc. expenditure.’

illustration

- A ltd.offered to public the 30,000 equity shares of Rs.100/ each at a discount of 10% payable as follows;
- Application Rs.20
- Allotment Rs.20
- First call Rs.40
- Second call Rs.10
- The co. recd the applications for 20,000 shares.Pass journal entries.

SWEAT EQUITY SHARES

- Shares which are issued by the company to its employees or directors at a discount for consideration other than cash for providing know-how.the following conditions must be fulfilled---
- Authorised by a special resolution.
- Resolution specifies no. of shares, current market price,consideration and classes of directors or employees to whom such shares are issued.
- At least one year has elapsed after commencement of business.
- Rules framed by SEBI are followed in this behalf.

Issue of right shares

- **When a company which has already issued shares wants to raise capital through the further issue of shares,it is under a legal obligation to first offer the fresh shares to its existing shareholders.because of the right of existing shareholders to apply for the shares on priority basis,the issue is known as right issue.**
- **Section 81 of the companies act,1956 provides that where a public limited company proposes to increase its share capital , by allotment of further shares then,---**
- **Such shares shall be offered to the existing shareholders in proportion to their equity holding on that date i.e. if a co. already having 3,00,000 shares issues 1,00,000 shares , the shareholders can subscribe for 1 share for every 3 shares held.**
- **Contd.**

Contd.

- The offer shall be made by a notice specifying the no. of shares offered and limiting a time not less than 15 days , within which the offer, if not accepted, will be deemed to have declined.
- The offer should specify that the concerned person can renounce the shares offered to him in favour of another person.

Merits of issue of right shares

- Right shares are offered at a price lower than market price, so the shareholders can make a profit by renouncing their right to some other persons.
- Right issue helps in preserving the control of co. in the hands of existing shareholders.
- Raising of capital is more certain.
- Improves the image of company
- Expenses of issue are lower in this case.
- Good opportunity to existing shareholders to invest in well conversant co.
- Directors cannot misuse their power by issuing shares to their friends.

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