3. ISSUE OF SHARES

Q.1 A) Select the correct answer from the options given below and rewrite the statements.

1. .... refers to capital made up of Equity and preference shares
a) Share capital
b) Debt capital
c) Reserve fund

2. .... capital refers to maximum capital a company can raise by issuing shares.
a) Issued
b) Authorised
c) Paid up

3. .... means shares are offered to the public.
a) Rights Issue
b) Private Placement
c) Public Issue

4. Under .... method, issue price of shares is based on bidding.
a) Book Building
b) Fixed Price
c) Bonus issue

5. In .... shares of a company are offered to the public for the first time.
a) Further Public Offer
b) Initial Public Offer
c) Public Offer

6. .... is offered to existing equity shareholders.
a) IPO
b) ESOS
c) Right issue

7. Bonus shares are issued free of cost to ....
a) existing Equity shareholders
b) existing employees
c) Directors

8. .... are offered to permanent employees, Directors and Officers of a company.
a) Bonus Shares
b) Rights Issue
c) ESOS

9. Under .... company offers its securities to a select group of persons not exceeding 200.
a) Private Placement
b) IPO
c) Public Offer

10. The....... have the power to allot shares.
a) Director
b) Board of Directors
c) Company Secretary

11. Letter of .... is sent to applicants who have been given shares by the company.
a) Regret
b) Renunciation
c) Allotment

12. .... is a proof of title to Shares.
a) Share Certificate
b) Register of Members
c) Letter of Allotment

13. The gap between two calls should not be less than ....
a) 14 days
b) One month
c) 21 days

14. Company can .... shares on non-payment of calls.
A) forfeit
b) surrender
c) allot

15. Voluntarily giving away one's share to another person is called as .... of shares.
a) Transfer
b) Transmission
c) Surrender

16. .... of shares takes place due to operation of law.
a) Forfeiture

b) Allotment
<u>**c) Transmission**</u>

B) (1) Match the pairs.

Group 'A'	Group 'B'
a) Death of member	1. Forfeiture of shares
b) Voluntary return of shares to company by member	2. Book Building Method
c) Price of shares mentioned in prospectus	3. Offered to existing employees
d) ESPS	4. Surrender of shares
e) Regret Letter	5. Transmission of shares
	6. Non-allotment of shares
	7. Offered to existing Equity shareholders
	8. Transfer of shares
	9. Fixed price issue method
	10. Allotment of shares

Ans:

Group 'A'	Ans:
a) Death of member	5. Transmission of shares
b) Voluntary return of shares to company by member	4. Surrender of shares
c) Price of shares mentioned in prospectus	9. Fixed price issue method
d) ESPS	3. Offered to existing employees
e) Regret Letter	6. Non-allotment of shares

B) (II) Match the pairs.

Group 'A'	Group 'B'
a) Issued capital	1) Non-payment of calls
b) FPO	2) Any issue after IPO
c) Bonus shares	3) Offered to existing employees

d) Issued within two months of allotment of shares	4) Capital offered to public to subscribe
e) Forfeiture of shares	5) Share certificate
	6) First time issue of shares
	7) Free shares issued to existing equity shareholders
	8) Maximum capital a company can raise
	9) Allotment Letter
	10) Operation of law

Ans:

Group 'A'	**Ans:**
a) Issued capital	4) Capital offered to public to subscribe
b) FPO	2) Any issue after IPO
c) Bonus shares	7) Free shares issued to existing equity shareholders 3) Offered to existing employees
d) Issued within two months of allotment of shares	5) Share certificate
e) Forfeiture of shares	1) Non-payment of calls

C) Write a word or a term or a phrase which can substitute statements.

1. Capital collected by way of issue of Equity and Preference shares.
Ans: Share Capital

2. Part of issued capital subscribed by investors. each of the following.
Ans: Subscribed capital

3. Capital that will be collected only at the time of winding up of a company.
Ans: Reserve capital

4. Highest bid price in Book Building method.
Ans: Cap price/ceiling price

5. Offering of shares by a company to the public for the first time.
Ans: Initial public offer (IPO)

6. Subsequent issue of shares after an IPO.
Ans: Further Public Offer/ Follow on Public Offer (FPO)

7. Pre-emptive right given to existing Equity shareholders to subscribe to new issue of shares by company.
Ans: Rights Issue of shares

8. It is also called as 'Capitalisation of Profits'
Ans: Retained Earnings

9. Appropriation of shares to an applicant.
Ans: Allotment of shares

10. Committee set up to decide the formula for allotment of shares in case of over subscription.
Ans: Allotment committee

11. Minimum amount to be collected from subscribers within thirty days of issue of prospectus.
Ans: Minimum subscription amount

12. Document which is a prima facie evidence of ownership of certain shares of a company.
Ans: Share certificate

13. Penal action taken by company on non-payment of calls.
Ans: Forfeiture of shares

14. Person to whom transferor is transferring the shares.
Ans: Transferee

15. Transfer of shares due to operation of law.
Ans: Transmission of shares

D) State whether the following statements are true or false.

1: Only fully paid up shares can be forfeited.
Ans: False

2. The member transferring shares is called as transferor.
Ans: True

3. Share certificate is issued for partly or fully paid up shares.
Ans: True

4. Allotment of shares must be done within one month of receipt of application money.
Ans: False

5. Sweat Equity shares are offered to Directors or employees of a company.
Ans: True

6. Bonus Shares are issued at a discounted price to the Equity shareholders.
Ans: True

7. Floor price is the highest bid price under Book Building method.
Ans: False

8. Calls not paid by shareholder is called as calls in arrears.
Ans: True

9. Shares not offered to the public for subscription is called as subscribed capital.
Ans: False

10. Authorised capital is mentioned in capital clause of Memorandum of Association.
Ans: True

E) Find the odd one.

1. Authorised capital, Equity share capital, Issued capital, Paid Up capital.
Ans: Equity share capital

2. ESOS, ESPS, Rights Shares, Sweat Equity.
Ans: Rights Shares

3. Floor Price, Cap price, Cut-off price, Face Value
Ans: Face Value

4. Bonus shares, Rights Shares, ESOS.
Ans: ESOS

5. Allotment of shares, Forfeiture of shares, Surrender of shares.
Ans: Allotment of shares

F) Complete the sentences.

1. Share capital refers to capital made up of Equity shares and **Preference shares**

2. Reserve capital is part of **Uncalled capital**

3. Transfer of shares due to death, insolvency or insanity of member is called **Transmission of shares**

4. The two parties involved in transfer of shares are transferor and **Transferee**

5. Voluntarily giving up of shares by a member due to inability to pay calls is called as **Surrender of shares**

6. Company can forfeit only **Partly** paid shares.

7. In case the original Share Certificate is torn or mutilated, company can issue **Duplicate share certificate.**

8. In case of transfer of shares, company has to issue to the transferee a new share certificate within **1 month of date of receipt of instrument of transfer.**

9. Letter sent to applicants for informing them shares are allotted is called as **Letter of allotment**

10. When applications received are more than the number of shares offered, it is called as **Over subscription**

11. In Book Building Method, the final price at which shares are offered to investors is called as **Cut-off price**

12. Shares issued free of cost to existing Equity shareholders is called as **Bonus shares**

G) Select the correct option from the bracket.

(First time offer of shares, Shares offered to public, Shares offered to existing Equity shareholders, Shares offered to existing employees, Transmission of shares)

Group 'A'	Group "B"
a) Public offer of shares	1) **Shares offered to public**

b) First time offer of shares	2) Initial Public offer
c) Rights Issue	3) Shares offered to existing Equity shareholders
d) Shares offered to existing employees	4) ESOS
e) Operation of law	5) Transmission of shares

H) Answer in one sentence:

(1) When does transmission of share take place?

Ans. Transmission of share takes place after the death, insolvency or insanity of the shareholder. Parties involved in transfer.

(2) Name the of shares.

Ans. The parties involved in transfer of shares are Transferor and Transferee.

(3) What is the time limit to issue share certificate on allotment of shares?

Ans. The time limit to issue share certificate on allotment of shares is of maximum 2 months.

4) What is the time limit for filing Return of Allotment with the Registrar on allotment of shares?

Ans. The time limit for filing Return of Allotment with the Registrar is of 30 days after the allotment of shares.

(5) When can a company forfeit shares?

Ans. When the shareholder fails to pay the full amount of share which he agreed to pay in installments, the company can forfeit his shares,

(6) What is a share certificate?

Ans. Share certificate is a document of title of shares issued by the company,

(7) What is the minimum application money to be collected by company as per the Companies Act?

Ans. As per the Companies Act, the minimum application money to be collected by company is 25% of nominal value of shares.

(8) With whom should the prospectus be filed before issuing it to the public?

Ans. Before issuing it to public, the copy of prospectus must be filed with Registar of Company (ROC).

(9) What is meant by private placement?

Ans. If a company offers shares to a selected group of investors, not exceeding 200 to raise capital is called private placement.

(10) To whom is Sweat Equity Shares offered by a company?

Ans. Sweat Equity Shares is offered to its Directors or Employees at a discount, by a company.

(11) To whom can a company issue Bonus Shares?

Ans. Company can issue Bonus Shares to its existing equity shareholders.

(12) What is the subsequent issue after IPO called as?

Ans. The subsequent issue after Initial Public Offer (IPO) is called as Further Public Offer (FPO)

(13) Name the method under which the issue price of shares is fixed through a bidding process.

Ans. The method under which the issue price of shares is fixed through a bidding process called as 'Book Building Method'.

(14) What is Public Issue?

Ans. Shares offered to public by a company through prospectus, is called as public issue.

(15) Name the capital which is mentioned in the capital clause of Memorandum of Association.
Ans. The capital which is mentioned in the capital clause of Memorandum of Association is called as 'Authorised Capital.

I) Correct the underlined words and rewrite the following sentences.

(1) Issued capital is the maximum capital which a company can raise by issuing shares.

Ans. Authorised capital is the maximum capital which a company can raise by issuing shares.

(2) Under fixed price issue method, the price of shares is fixed through bidding process.

Ans. Under **book building method** the price of shares is fixed through bidding process.

(3) FPO refers to offering of shares to the public for the first time.

Ans. IPO refers to offering of shares to the public for the first time.

(4) Only fully paid up shares can be forfeited.

Ans. Only **partly paid** shares can be forfeited.

(5) Bonus shares are offered to existing employees of a company.

Ans. Bonus shares are offered to existing **equity shareholders** of a company.

(6) Company enters into an underwriting agreement with the shareholders.

Ans. Company enters into an underwriting agreement with the **underwriters**.

(7) Letter of Allotment is sent to applicants when no shares are allotted to them. applicants sent

Ans. Letter of Regret is when to no shares are allotted to them.

(8) Duplicate share certificate must be issued within one month from date of application.

Ans. Duplicate share certificate must be issued within **three** months from date of application.

(9) Call money cannot exceed 5% of nominal value of shares.
Ans. Call money cannot exceed **25%** of nominal value of shares.

J) Arrange in proper order.

1. a) Forfeiture of shares,

b) Calls on shares.

c) Allotment of shares.

Ans:
(c) Allotment of shares

(b) Calls on shares

(a) Forfeiture of shares

2. a) Share certificate

b) Allotment letter

c) Application form

Ans: (c) Application form

(b) Allotment letter

(a) Share certificate

3. a) Return of allotment

b) Application form

c) Minimum subscription

Ans: (b) Application form

(c) Minimum subscription

(a) Return of allotment

Q.2 Explain the following terms/concepts.

(1) Transmission of shares

Ans. (a) Transmission of shares means transfer of shares by operation of law, ie shares of a member is automatically transferred to another person.
(b) Transmission of shares happens on specific event such as death, insolvency, or insanity of shareholders.

(2) Bonus shares

Ans: (a) Bonus issues refers to the fully paid up shares given to its existing equity shareholders without any cost, based upon the number of shares they own.
(b) Such shares are given by the company as a gift to its existing equity shareholders out of its profits or reserves.

(3) Allotment of shares

Ans. (a) Allotment of shares means company allot (to give) shares to the general public. Allotment means distribution of shares among the applicants. When a public company wants to issue the shares to the general public, it has to issue prospectus to invite general public to subscribe to its shares.

(b) In response to it, general public may apply for shares of the company, they are known as 'Share Applicants'. Board of Directors take the decision regarding allotment of shares by passing a resolution.

(4) Employees Stock Option Scheme

Ans. (a) Under this scheme, company offers certain shares from the new issue to the whole time directors, officers or employees of the company.

(b) The company offers the shares at a pre determined price which is usually less than the price offered to general public.

(5) Surrender of shares

Ans. (a) Surrender of shares means the return of shares by the shareholder to the company for cancellation. Holder in this case voluntarily abandon all his shares in favour of the company.

(b) The power to accept surrender of shares cannot be exercised by a company unless expressly given by the Articles of Association. Only partly paid up shares can be surrendered. Surrendered shares can be reissued in the same way as forfeited shares.

(6) Sweat Equity shares

Ans: (a) Sweat equity shares are such equity shares, which are issued by a company to its directors or employees at a discount or for consideration, other than cash.
(b) The issue of sweat equity shares allows the company to retain the employees by rewarding them for their services.

(7) Share certificate

Ans. (a) Share certificate is a registered document of title to the shares issued by the company under its common seal, duly stamped by at least two directors and counter signed by secretary of the company.
(b) It is issued by both public and private company in respect of partly or fully paid up shares. Since, it is a registered document of title of share, it only be transferred by following the procedure laid down in Articles of Association.

(8) Authorised capital

Ans. (a) This is the amount of capital stated in the capital clause of Memorandum of Association. It is also known as "Nominal Capital" or "Registered Capital".

(b) The company is entitled to raise finance by the issue of shares only up to the amount of authorised capital. However, the company can increase the amount of authorized capital by altering the Memorandum suitably.

(9) Forfeiture of shares

Ans. (a) Forfeiture of shares is a process where the company forfeit the shares of a member or shareholder who fails to pay the call on shares or installment of the issue price of his shares within a certain period of time after they fall due.

(b) In other words, when the shareholder fails to pay the full amount of share which he agreed to pay in installments, the company can cancel his shares. The company will give 14 days' notice; after 14 days if the shareholder does not pay the company will forfeit his shares and strike his name from the register of shareholders.

(10) Paid up capital

Ans. (a) Paid-up Capital is the part of called up capital which is actually paid by the shareholders.

(b) In other words, paid up capital is the total amount of money actually paid by shareholders when the company has called up or demanded them to pay.

(11) Calls on shares

Ans. (a) Calls on shares means the demand made by the company on its shareholders holding partly paid shares to pay part or full unpaid amount on the shares.

(b) A call may be defined as "A demand made by the company on its shareholders to pay whole or part of the balance remaining unpaid on each share at any time during the life time of a company".

(12) Subscribed capital

Ans. (a) It is that part of the issued capital which is taken up by the public. Sometimes, the public may not take up all the shares that are offered to the public, for subscription.

(b) In such case, the subscribed capital shall be less than the issued capital. If the public subscribe all the shares, it shall be equal to the issued capital.

(13) Minimum subscription

Ans. (a) Minimum subscription is the minimum amount raised by the company for obtaining trading certificate and to start the work of allotment of shares. This amount is mentioned in the prospectus.

(b) It must be collected within thirty (30) days from issue of prospectus. Minimum subscription amount should be 90% of issued capital.

(14) Transfer of shares

Ans. (a) Transfer of shares means transfer of ownership of shares from one person to another.

(b) Transfer of shares take place when the shareholder wants to sell his shares or give as a gift to other person. Shares can only be transferred by following the procedure laid down in Articles of Association.

(15) Initial Public Offer

Ans. (a) An Initial Public Offer (IPO) is a process of offering shares to general public for the first time. A public company makes an appeal to the general public to purchase its shares by issuing the prospectus,

(b) The prospectus contains detailed information about the company, its project and shares. It also includes an application form for free of cost.

(16) Blank transfer

Ans. (a) When a member signs the Instrument of transfer without filling in the name of the transferee and hands it over to the transferee along with the share certificate, it is called 'Blank Transfer'.

(b) Blank transfers can be deposited with a bank, when shares are being used as a security for a loan. A blank transfer can also be used when shares are held by nominees, the beneficial owner holding the blank transfer.

(17) Further Public Offer

Ans. (a) Follow-on Public Offering or Further Public Offer, is process of offering shares to the public, after the process of IPO.

(b) In FPO, the company goes for a further issue of shares to the general public with a view to diversifying their equity base. The shares are offered for sale by the company through prospectus.

(18) Forged transfer

Ans: (a) An instrument on which the signature of the transferor is forged is called forged transfer. It is a null transfer and does not confer any title.

(b) It is so because in case of forgery there is not merely an absence of free consent but there is no consent at all.

(19) Rights Issue

Ans. (a) The Company issue shares to its existing equity shareholders in the proportion of shares held by them. Such shares issued is called as Rights Issue' of shares.

(b) Under Rights issue, such shareholders are given pre-emptive rights to apply for new shares.

(20) Private placement

Ans. (a) If a company offers shares to a selected group of investors, not exceeding 200 to raise capital, is called private placement.

(b) The selected group can be mutual funds, banks, insurance companies, pension funds and so on.

Q.3. Study the following case / situation and express your opinion.

(1) Eva Ltd. Company's capital structure is made up of 1,00,000 equity shares having face value of Rs.10 each. The company has offered to the public 40,000 equity shares and out of this, the public has subscribed for 30,000 equity shares. State the following in Rs.

(a) Authorised capital.

Ans. In the above case, Eva Ltd. Company has 1,00,000 equity shares having face value of Rs.10 each. Therefore, the Authorised capital is Rs. 10,00,000 (1,00,000 equity shares @ Rs. 10 per share)

(b) Subscribed capital.

Ans. In the above case, the public has subscribed for 30,000 equity shares. Therefore, the subscribed capital is Rs 3,00,000 (30,000 equity shares @ Rs. 10 per share)

(c) Issued capital.

Ans. In the above case, the company has offered to the public 40,000 equity shares. Therefore, the issued capital is Rs. 4,00,000 (40000 equity shares @ 10 per share)

(2) TRI Ltd. Company is newly incorporated public company and wants to raise capital by selling equity shares to the public. The Board of Directors are considering various options for this. Advise the board on the following matters:

Ans. In the above case, TRI Ltd. Company is newly incorporated public company and wants to raise capital by selling equity shares to the public. Therefore, the company should offer IPO (Initial Public Offer).

(b) Can the company offer Bonus Shares to raise its capital?

Ans. No. The company cannot offer Bonus Shares to raise its capital. This is because, Bonus Shares are given to its existing equity shareholders and it is given out of accumulated distributable profits or reserves. Whereas, TRI is newly incorporated company, so it will not have sufficient profit to give bonus shares.

(c) Can the company enter into Underwriting Agreement?

Ans. Yes. The company can enter into Underwriting Agreement with underwriters by paying them a commission. The underwriters assure the company to take up the unsold shares so that the company is able to raise its minimum subscription.

3. Silver Ltd. Company has recently come out with its public offer through FPO. Their issue was oversubscribed. The Board of Directors now wants to start the allotment process. Please advise the Board on:

(a) Should the company set up allotment committee?

Ans. In the above case, the board of directors now wants to start the allotment process. Therefore, the company must set up allotment committee, Allotment committee will decide the basis of allotment and submit a report to board of directors.

(b) How should the company inform the applicants to whom the company is allotting shares?

Ans. At the board meeting, a resolution is passed to allot shares. After passing the resolution, the secretary has to issue Letter of Allotment to those applicants whom the company is allotting shares

(c) Within what period should the company issue share certificate?

Ans. The company should issue share certificate ?
within two months from date of allotment.

4. Red Tubes Ltd. has made a demand on its shareholders to pay the balance unpaid amount of Rs. 20/- per share (having a face value of Rs.100) held by them. The company has sent letters asking the shareholders to pay the money to its Bankers within the specified time.

(a) Are the shareholders liable to pay Rs.20 for the shares held by them?

Ans. Yes. The shareholders are liable to pay Rs.20 for the shares held by them. This is because, it is the responsibility of every shareholder to pay the call money as demanded by the company.

(b) Name the letter sent by the company to its shareholders asking them to pay Rs.20/-

Ans. The company has to send the call letter to shareholders for the payment of call money. This letter is sent by ordinary post.

(c) What happens if a shareholder fails to pay the money within the specified time?

Ans. If a shareholder fails to pay the money within the specified time, then the company send warning letter and after that the company can forfeit (cancel) the shares of the shareholders.

5. X owns 100 shares while Y owns 500 shares of Red Tubes Ltd. The company has asked all its shareholders to pay the balance unpaid amount of Rs. 20. X pays the full money demanded by the company. Y, who is in a bad financial position is unable to pay any money.

(a) Can the company forfeit the shares of Y?

Ans. In the above case, Y owns 500 shares and unable to pay any money due to bad financial position. Therefore, the company can forfeit the shares of Y.

(b) Can the company forfeit the shares of X?

Ans. In the above case, X owns 100 shares and pays the full money demanded by the company. Therefore, the company cannot forfeit the shares of X.

(c) Can X transfer his shares?

Ans. Yes. X can transfer his shares. For this, X has to fill up the form for renunciation and have to submit it with the original copy of Letter of Allotment to the company. After the approval of Board, secretary enters the name of new allotees in the application and in allotment list.

Q.4 Distinguish between the following.

1. Initial Public Offer and Further Public Offer Points

Initial Public Offer	Further Public Offer
1. Meaning: IPO refers to an offer of securities by an unlisted Public Company to the public for the first time.	FPO means an offer of securities by a listed Public Company to the public to raise subsequent capital.
2. Type of issuer company: It is issued by an unlisted Public Company.	It is issued by a listed Public Company.
3. When issued: It is usually issued by an existing company which wants to raise capital from the public for the first time.	It is usually issued by a listed Public company when it wants to raise further capital from the public.
4. Order of issue: IPO proceeds FPO. IPO is the first time sale of shares to the public. Initial Public Offer	FPO is always done after IPO. FPO is the second or subsequent sale of shares to the public.
5. Listing: Company has to get itself listed for the first time before issuing IPO,	Company making an FPO is already a listed company.
6. Risk: It is very risky for the investor as he cannot predict the company's performance.	It is less risky for the investor as he has an idea of the company's past performance and can judge its future performance.

2. Fixed Price Issue Method and Book Building Method.

Fixed Price Issue Method	Book Building Method
1. Meaning: Under this method, the issue price of shares is mentioned in the prospectus and investors have to buy shares at that price only.	Under this method, the issue price is determined by a bidding process. The investors are given a price band and are asked to bid at a price within the band. This way company arrives at a price at which it will sell its shares.
2. Price of Shares: The exact price of shares is known in advance and it is mentioned in the prospectus.	The price of shares is not known in advance. Only the minimum price and maximum price at which the company is willing to sell the shares is known in advance.
3. Prospectus: Company has to issue a prospectus and it contains the details of price at which shares are offered and the total number of shares offered by the company.	Company issues a Red Herring Prospectus. It contains only the price band and the total size of issue.
4. Determination of Demand: Company comes to know the public demand for its shares only after closure of the issue	Company can know the public demand for its shares every day. The bids are

	registered in the book everyday till the closure of the issue.
5. Payment of Application Money: Application money or entire money has to be paid by the investor at the time of submitting his application for shares.	Only application money has to be paid at the time of bidding. Money will be collected only after the issue price has been fixed.
6. When Used: It can be used for any issue i.e. Public Issue, Rights Issues, ESOS, etc.	It is usually used in Public issues i.e. IPO and FPO.

3. Rights Shares and Bonus Shares:

Rights Shares	Bonus Shares
1. Meaning: In rights issue, shares are offered to the existing equity shareholders i.e. Company offers the shareholders the first option to buy the shares of the company.	Bonus shares are issued to the existing equity shareholders free of cost.
2. Payment: Subscribers have to pay for the Rights Shares. Company only gives them a right to buy these shares.	Bonus shares are issued free of cost to the shareholders.
3. Partly / fully paid up shares: Shareholders have to pay for these shares as Application Money, Allotment, Call Money etc. till the full money on shares is paid up.	Bonus shares are fully paid up shares. So no money has to be paid by the shareholders to the company.
4. Minimum Subscription: Company has to obtain minimum subscription. If the company fails to receive minimum subscription, it has to refund the entire application money received.	There is no minimum subscription to be collected as Bonus shares are issued free of cost by the company.
5. Right to Renounce: The shareholders can renounce his shares.	Shareholders cannot renounce his bonus shares.
6. Purpose of Issue: Rights issue is done by a company when it wants to raise fresh funds but wants to give a chance to their existing members to increase their shareholding.	When company has accumulated huge profits or reserves and company wants to reward its existing Equity shareholders, company issues Bonus shares.

4. Transfer of Shares and Transmission of Shares:

Transfer of Shares	Transmission of Shares
1. Meaning: Transfer of shares means voluntarily or deliberately giving away one's shares to another person by entering into a contract with the buyer.	It means transfer of ownership of a member's shares to his legal representative due to operation of law. It takes place on death, insolvency or insanity of the members.
2. When done: It is done when the member wants to sell his shares or give his shares as gift.	It is done when the member dies or becomes insolvent or insane.
3. Nature of Action: It is a voluntary action taken by the member.	It is an involuntary action. It is due to operation of law.
4. Parties involved: In transfer of shares there are two parties involved- the member who is called as transferor and the buyer who is called as transferee.	There is only one party e.g, the nominee of the member in case of death of the member or the legal representative.
5. Instrument of transfer: Transfer requires Instrument of transfer. It is a contract between the transferor and transferee.	No Instrument of transfer is needed.
6. Initiated by: Transferor initiates the transfer process.	Legal representative or official receiver initiates the process of transmission.
7. Consideration: Transfer of shares is done often by the member to receive some consideration (money) i.e. the buyer has to pay for the shares. (Except given as gift.)	No consideration is involved here. The legal heir or official receiver need not pay for the shares.
8. Liability: The liability of the transferor ends after the shares are transferred.	Original liability of the member continues in case of transmission of shares.
9. Stamp Duty: Stamp duty as per the market value of shares has to be paid.	No stamp duty is to be paid

Q.5. Answer in brief:

(1) What is Book Building Method ?

Ans. (1) Under this method, the issuer company determines the number of shares and the issue price at which its shares will be sold by bidding process.

(2) The company issues a Red Herring Prospectus which contains price range or price band and asks the investors to bid on it.

(3) Here, the minimum price of bid is called 'Floor Price' or 'Ask Price and the maximum price of bid is called 'Cap Price or 'Bid Price'.

(4) The final price at which shares are offered to the investors is called as 'Cut-Off price. The bids along with the application money is to be submitted to the Lead Merchant Bankers* called as 'Book Runners' who enters the bids in a book. (5) After bidding is over, company fixes 'cut off price' based on the highest or best price at which all shares on offer can be sold.

(2) State the provisions for Rights Issue.

Ans. The Company issue shares to its existing equity shareholders in the proportion of shares held by them. Such shares issued is called as Rights Issue' of shares.

The provisions related to Rights Issue are as follows:

(1) Rights shares are sold to the existing shareholders at a price which is lesser than its market price.

(2) A company has to send Letter of offer to the existing shareholders at the time of issuing Rights shares.

(3) The letter of offer shall mention:

- The number of shares offered.

- The period of offer i.e. offer is valid for a period not less than fifteen days and not exceeding thirty days from the date of offer.

- The right to renounce i.e. the shareholders have a right to give up their shares in favour of any other person.

(4) The letter of offer can be sent by registered post, speed post, courier or through electronic mode.
(5) If the shareholder does not respond to Rights Issue offer within a stipulated time, it is impliedthat he is not interested in the offer and the company can offer the unsold shares to new investors.

(6) The company has to obtain minimum subscription i.e. 90% of the issue.

(3) State the provisions related to Bonus Shares.

Ans. Bonus issues refers to the fully paid up shares given to its existing equity shareholders without any cost, based upon the number of shares they have. Provisions related to Bonus Shares are as follows:

(1) A company can issue Bonus Shares only out of:

• Free reserves or

• Securities Premium Account* or

• Capital Redemption Reserve Account

(2) A company cannot issue Bonus Shares only out of reserves created by Revaluation of Assets.

(3) The company also cannot issue bonus Shares instead of paying dividend.

(4) Once the announcement for Bonus Shares is made by the Board of Directors then it cannot be withdrawn.

(5) Bonus shares are fully paid up shares. Shareholders cannot give away their bonus shares to another person.

(6) There is no minimum subscription to be collected.

(4) State the general principles / rules for allotment of shares.

Ans. Allotment of Shares means Company allot (to give) shares to the general public. Allotment means distribution of shares among the applicants.

The general principles / rules for allotment of shares are as follows:
(1) Communication: The decision regarding allotment must be communicated to the applicants. It means the company should inform the investors in writing and then share applicant and company enters into contract.

(2) Absolute and unconditional: The allotment must be absolute and unconditional, i.e. it must be made on the same terms as stated in the application. - No change in the terms of allotment or new conditions can be added at the time of allotment.

(3) Proper authority: The allotment should be made by proper authority, i.e. Board of Directors of the company or authorized committee on behalf of Board of Directors. An allotment made without proper authority will be invalid.

(4) Allotment should not be in contravention (violation) of any other laws:

- A Company cannot allot shares by violating or contradicting any other existing laws. For instance, Shares cannot be allotted to a minor.

- But in the event of any such contravention, the company and every officer of the company who is in default, shall be punishable with fine which may extend to Rs. 5,000.

(5) Allotment against applications only: A company can allot shares only if it has received a written applications for shares from the applicant.
Thus, no valid allotment can be made on oral request. It must be against written application only.

(6) Reasonable time:
The allotment must be made within the reasonable time. Otherwise the applicant is not bound to accept it, i.e. applicant can reject it. As per the Act, allotment shall be done within 60 days of receipt of application money. Allotment can be made from the fifth day from date of issue of prospectus.

(5) State the contents of Share Certificate.

Ans. Share certificate should be in Form SH-1 as prescribed under Companies (Share Capital and Debenture) Rules, 2014. Following are the contents of a share certificate:

(1) Name of the Company, CIN, Registered office address,

(2) Folio Number,

(3) Share Certificate Number,

(4) Name of Member,

(5) Nature of share, number of shares and distinctive number of the shares,

(6) Amount paid on shares,

(7) Common Seal, if any and signature of two Directors and Company Secretary.

(6) What are the effects of forfeiture of shares ?

Ans. Forfeiture of Shares:

(1) Forfeiture of Shares is a process where the company forfeit the shares of a member or shareholder who fails to pay the call on shares or instalments of the issue price of his shares within a certain period of time after they fall due.

(2) In other words, when the shareholder fails to pay the full amount of share which he agreed to pay in instalments the company can cancel his shares.

The effects of forfeiture of shares are as follows:

(1) Cessation of membership:

- A person whose shares have been forfeited ceases to be a member in respect of forfeited shares.

- The member's name removed from the Register of Members,

- This is provided under regulation 32(1) of Table F of schedule 1 of Companies Act, 2013.

(2) Liability of Members:

- The liability of a person whose shares have been forfeited comes to an end when the company receives the payment in full of all such money in respect of shares forfeited.

- A member is liable for unpaid calls even after the forfeiture of shares.

- This is provided in Regulation 32(2) of Table F.

(3) Liquidation of the company:

- In case of, liquidation of the company takes place within one year of the forfeiture, then the liability of a former shareholder remains as a liability of a past member to pay calls.

- In other words, if company goes for liquidation, member whose shares have been forfeited is liable to pay the calls as a past member.

(4) Forfeited shares become company's property:

- The forfeited shares become the property of the company on forfeiture.

- Accordingly, these may be re-issued or otherwise disposed of on such terms and in such manner which the board of directors thinks fit.
This provided under Regulation 31(1) of Table F.

(7) When can the Board of Directors refuse transfer of shares ?

Ans. Refusal to Transfer of Shares:

(1) If a company refuses to register the transfer of shares, it shall send a notice of refusal to the transferor and the transferee or to the person giving intimation of such transfer within thirty days from the date on which the instrument of transfer was delivered to the company.

(2) The notice should contain valid reason for such refusal. Board of Directors have the authority to refuse registration of transfer of shares. A member may appeal to the NCLT against the refusal by the Board within a period of thirty days from date of receipt of refusal notice.

(3) If no notice is received, the member can appeal within 60 days in case of a Private Company and within 90 days in case of a Public Company.

(4) It is important to note that the Board may refuse the transfer in the following cases:

- Where the member transfers the shares to his/her representative(s).

- When the provisions for transfer of shares as given in the Articles of Association is not fulfilled by the member. When the instrument of transfer is not as per the rules prescribed under the Companies Act.

- When the Instrument is not accompanied by the Share Certificate.

- When the company has a lien on the shares to be transferred.

8. Explain Employee stock option scheme.

Ans: Employee Stock Option Scheme (ESOS):

(1) This is a scheme through which a company encourages employee participation in the business of a company.

(2) Under this scheme company offers certain shares, from the new issue, to the whole time directors, officers or employees of the company.

(3) The company offers the shares at a pre determined price which is usually less than the price offered to general public.

(4) The Employee Stock Option Scheme
(ESOS) must be approved by passing a special resolution in the general meeting.
Provisions related to ESOS are as follows:

Provisions related to ESOS are as follows:

(1) A company may offer the shares directly to the employees or through an Employee Welfare Trust.

(2) The shares are offered at price less than market price.

(3) There is a minimum vesting period* of one year.

(4) Usually, company will specify the lock-in period i.e. period during which employee cannot sell his shares. Lock-in period is minimum 1 year between grant of option and vesting.

(5) Shares issued under this scheme does not enjoy any dividend or voting rights till the employees buys the shares.

(6) Company has to get the approval of shareholders through special resolution to issue ESOS.

(7) Employee cannot transfer his option to any other person nor can he pledge or mortgage* the shares issued under ESOS.

(8) Company has to set up a compensation committee to administer ESOS. Company

has to fulfil the provisions of SEBI (Share Based Employee Benefits) Regulations, 2014.

(9) What is calls on shares ?

Ans. (1) "Calls on shares" means the demand made by the company on its shareholders holding partly paid shares to pay part or full unpaid amount on the shares.

(2) The board of directors of the company makes such a call on shares in accordance with terms and conditions of issue of shares and as per articles of association of the company.

(3) A call may be defined as "A demand made by the company on its shareholders to pay whole or part of the balance remaining unpaid on each share at any time during the life time of a company".

(4) For instance, the price of a share is Rs.100/. At the time of applying for shares, the investor has to pay Rs. 5/- of the nominal value of share, so Rs. 95/- is balance on each share. As and when the company needs money it asks its shareholders to pay, it is known as calls on shares.

(5) Company has to send a call letter/notice to the shareholders asking them to pay the call money and give them minimum 14 days' notice to pay the call money to the Company's Banker,

(6) No call can be made for more than 25% of the nominal value of shares. The gap between two calls should not be less than one month from the date fixed for the payment of last preceding call.

(10) What is transfer of shares ?

Ans. (1) Transfer of share means transfer of ownership of shares from one person to another. In other words, shareholder can transfer the share to another shareholder.

(2) Transfer of shares take place when the shareholder wants to sell his shares or give as a gift to other person.

(3) Shares can only be transferred by following the procedure laid down in Articles of Association. A shareholder can sell either a part of share or entire shares held by him.

(4) In case of public companies, shares are freely transferable subject to the provisions of the Articles of Association. Whereas, in case of Private Company, there are restrictions on free transfer of shares.

(5) Once, the shares are transferred, the liability of the transferor ends. It take place when both the transferor and transferee are living.

Q.6 Justify the following statements.

1. Company has to fulfill certain provisions while making Right Issue.

Ans. Justification:
Following provisions company has to fulfill while making Rights Issue:

(1) Rights shares are sold to the existing shareholders at a price which is lesser than its market price.

(2) A company has to send Letter of offer to the existing shareholders at the time of issuing Rights shares.

(3) The letter of offer shall mention:

-The number of shares offered.

-The period of offer i.e. offer is valid for a period not less than fifteen days and not exceeding thirty days from the date of offer.

-The right to renounce i.e. the shareholders have a right to give up their shares in favour of any other person.

(4) The letter of offer can be sent by registered post, speed post, courier or through electronic mode.
(5) If the shareholder does not respond to Rights Issue offer within a stipulated time, it is implied that he is not interested in the offer and the company can offer the unsold shares to new investors.

(6) The company has to obtain minimum subscription i.e. 90% of the issue.

(2) To Issue Bonus Shares, a company has to fulfill certain provisions.

Ans. Justification:

Following provisions company has to fulfil to issue Bonus Shares:

(1) A company can issue Bonus Shares only out of:

- Free reserves or

- Securities Premium Account or

- Capital Redemption Reserve Account

(2) A company cannot issue Bonus Shares only out of reserves created by Revaluation of Assets.

(3) The company also cannot issue Bonus Shares instead of paying dividend.

(4) Once the announcement for Bonus Shares is made by the Board of Directors then it cannot be withdrawn.

(5) Bonus shares are fully paid up shares. Shareholders cannot give away their Bonus shares to another person.

(6) There is no minimum subscription to be collected.
Thus, it is rightly justified that, to issueBonus Shares, a company has to fulfil certain provisions.

(7) ESOS is offered by a company to its Permanent employees, Directors and Officers.

(3) ESOS is offered by a company to its Permanent employees, Directors and Officers.

Ans. Justification:

(1) Employee Stock Option Scheme (ESOS) is a scheme, through which a company encourages employee participation in the business of a company.

(2) Under this scheme company offers certain shares from the new issue to the whole time directors, officers or employees of the company.

(3) The company offers the shares at a pre determined price which is usually less than the price offered to general public.

(4) ESOS must be approved by passing a special resolution in the general meeting. Thus, it is rightly justified that, ESOS is offered by a company to its permanent employees, Directors and Officers.

(4) Company has to fulfill general principles/rules for allotment of shares.

Ans. Justification:
Following are the general principles / rules for allotment of shares.

(1) Communication: The decision regarding allotment must be communicated to the applicants
It means the company should inform the investors in writing and then share applicant and company enters into contract.

(2) Absolute and unconditional: The allotment must be absolute and unconditional, i.e, it must be made on the same terms as stated in the application, No change in the terms of allotment or new conditions can be added at the time of allotment.

(3) Proper authority:
The allotment should be made by proper authority, i.e, Board of Directors of the company or authorized committee on behalf of Board of Directors. An allotment made without proper authority will be invalid.

(4) Allotment against applications only: A company can allot shares only if it has received a written applications for shares from the applicant. Thus, no valid allotment can be made on oral request. It must be against written application only.

(5) Reasonable time:

- The allotment must be made within the reasonable time. Otherwise the applicant is not bound to accept it, i.e, applicant can reject it.

- As per the Act, allotment shall be done within 60 days of receipt of application money. Allotment can be made from the fifth day from date of issue of prospectus. Thus, it is rightly justified that, company has to fulfil general principles/rules for allotment of shares.

(5) A company can issue duplicate share certificate.

Ans. Justification:

(1) A company can issue duplicate share certificate if: Original share certificate has been defaced,

- mutilated or torn and is surrendered to the company.

- It has been proved by the holder that the original share certificate is lost or destroyed.

(2) In case of loss of share certificate, the company puts up a notice in the newspapers to announce the loss of the share certificate and asks the finder, if any, to return it to the company.

(3) If company does not get any response from the public, within the specified time, then the company can issue a duplicate share certificate.

(4) Duplicate share certificate should be issued within three months from date of application. Company issues it only to registered shareholders. Thus, it is rightly justified that, a company can issue duplicate share certificate if original certificate is lost, destroyed or torn.

(6) Board of Directors have the authority to forfeit shares.

Ans. Justification:

(1) Forfeiture of shares is a process where the company forfeit the shares of a member or shareholder who fails to pay the call on shares or instalments of the issue price of his shares within a certain period of time after they fall due.

(2) In other words, when the shareholder fails to pay the full amount of share which he agreed to pay in instalments the company can cancel his shares.
(3) If a shareholder fails to pay calls on shares within a certain period, the Board of Directors, if authorised by the Articles of Association, can forfeit i.e. take away the ownership of a member.

(4) The company will give 14 days' notice; after 14 days if the shareholder does not pay the company will forfeit his shares and strike his name from the register of

shareholders. Thus, it is rightly justified that, Board of Directors have the authority to forfeit shares.

(7) A member of a Public company can transfer shares.

Ans. Justification:
(1) Transfer of shares means transfer of
ownership of shares from one person to another. In other words, shareholder can transfer the share to another shareholder.

(2) Transfer of shares take place when the shareholder wants to sell his shares or give as a gift to other person.

(3) Shares can only be transferred by following the procedure laid down in Articles of Association. A shareholder can sell either a part of share or entire shares held by him. (d) In case of public companies, shares are freely transferable subject to the provisions of the Articles of Association. Whereas, in case of Private Company, there are restrictions on free transfer of shares. Thus, it is rightly justified that, a member of a Public company can transfer shares.

(8) The Board of Directors can refuse transfer of shares.

Ans. Justification:

(1) If a company refuses to register the transfer of shares, it shall send a notice of refusal to the transferor and the transferee or to the person giving intimation of such transfer within thirty days from the date on which the instrument of transfer was delivered to the company.

(2) The notice should contain valid reason for such refusal. Board of Directors have the authority to refuse registration of transfer of shares. A member may appeal to the NCLT against the refusal by the Board within a period of thirty days from date of receipt of refusal notice.

(3) If no notice is received, the member can appeal within 60 days in case of a Private Company and within 90 days in case of a Public Company.

(4) Thus, it is rightly justified that, the Board of Directors can refuse transfer of shares.

Q.7 Answer the following questions.

1. Explain the classification of share capital.

Ans. Meaning of Share Capital:
(1) The term capital, in general, means the amount of money invested in a business. It includes not only the money invested at the time of inception of business firm but also all the money invested subsequently.

(2) The capital raised by the company by issuing Equity Shares and Preference Shares is called share capital.

(3) Usually, in share capital, the proportion of Equity Shares is more than Preference Shares. The Companies Act uses the term capital in several senses.

<u>The classification of Share Capital</u>

1. Paid- up Capital and Calls in Arrears

2. Issued Capital and Unissued Capital

3. Called up Capital, Uncalled Capital and Reserve Capital

4. Subscribed Capital or Unsubscried Capital

5. Authorized Capital

(1) Paid - up Capital and Calls in Arrears:
- The Called-up capital may not be fully paid. Some shareholders may pay only part of the amount required to be paid or may not pay at all. Paid-up Capital is the part of called-up capital which is actually paid by the shareholders.

- The remaining part indicates the default in payment of calls by some shareholders, known as Calls in Arrears. In other words, the amount not paid by shareholders is called as Calls in Arrears or Unpaid Calls.

(2) Issued Capital and Unissued Capital:
- Issued Capital is that part of nominal capital which is issued to the public. Companies generally do not issue all its capital at once.

- They issue their capital in instalments and so the issued capital is generally less than the nominal capital. It never exceeds the authorized capital.

- Whereas, Unissued Capital is the balance of nominal capital remaining to be issued to the public. The company can issue shares from the unissued capital, in future.

(3) Called up Capital, Uncalled Capital and Reserve Capital:

- The Called up Capital is the part of subscribed capital which the company has actually called upon the shareholders to pay.

- Called - up Capital includes the amount paid by the shareholder from time to time on application, allotment, various calls, etc.

- The remaining part of subscribe capital not yet called up is known as Uncalled Capital. The Uncalled Capital may be converted into Reserve Capital by passing a special resolution.

- Reserve Capital is a capital that a company keep aside a part of uncalled capital. It can be called up only in case of winding up of the company, to meet the liabilities arising then. It is kept reserved for the Creditors in case of the winding up of the company.

(4) Subscribed Capital or Unsubscribed Capital:

- Subscribed Capital is that part of the issued capital which is taken up by the public. Sometimes, the public may not take up all the shares that are offered to the public, for subscription.

- In such case, the subscribed capital shall be less than the issued capital. If the public subscribe all the shares, it shall be equal to the issued capital

- Unsubscribed Capital is that part of the issued capital which is not allotted to public.

- The unsubscribed capital is also known as Treasury shares, which are shares held by the corporation itself and have no exercisable rights.

(5) Authorised Capital:

- This is the amount of capital stated in the capital clause of Memorandum of Association. It is also known as "Nominal Capital" or "Registered Capital".
The company is entitled to raise finance by the issue of shares only up to the amount of authorised capital. However, the company can increase the amount of authorized

capital by altering the Memorandum suitably.
The promoters generally fix the amount of nominal capital after considering both the long-term and short-term requirements of the proposed company.

(2) Explain the two methods a company can use to make its public offer of shares.

Ans. Public Issue or offer means offering the shares to the public. This is the most common method used by companies. The company invites the public to subscribe for its shares by issuing prospectus.
The two methods a company can use to make its public offer of shares are as follows:

(1) Initial Public Offer (IPO): An Initial Public Offer (IPO) is a process of offering shares to general public for the first time.
A public company makes an appeal to the general public to purchase its shares by issuing the prospectus. The prospectus contains detailed information about the company, its project and shares. It also includes an application form for free of cost.

(2) Follow on Public Offer (FPO):
Follow-on Public Offering or Follow on Public Offer, is process of offering shares to the public, after the process of IPO. In FPO, the company goes for a further issue of shares to the general public with a view to diversifying their equity base. The shares are offered for sale by the company through prospectus.

(3) Explain briefly the different types of shares offered by a company to its existing Equity shareholders.

Ans. The different types of shares offered by a company to its existing Equity shareholders are as follows:

<u>(1) Rights issue:</u>

(1) The Company issue shares to its existing equity shareholders in the proportion of shares holding by them. Such shares issued is called as 'Rights Issue' of shares. Under rights issue, such shareholders are given pre emptive rights to apply for new shares.

(2) However, if shareholder does not opt to subscribe such shares, then the company has option to sell it to the general public.

(3) A company can make a Rights Issue, when it is making a private placement. (d)

The main aim of issuing right shares is to raise additional funds by offering shares to the existing equity shareholders.

The provisions related to Rights Issue are as follows:

(1) Rights shares are sold to the existing shareholders at a price which is lesser than its market price.

(2) A company has to send 'Letter of offer' to the existing shareholders at the time of issuing Rights shares.

(3) The letter of offer shall mention:

• The number of shares offered.

• The period of offer i.e. offer is valid for a period not less than fifteen days and not exceeding thirty days from the date of offer

• The right to renounce i.e. the shareholders have a right to give up their shares in favour of any other person.

(4) The letter of offer can be sent by registered post, speed post, courier or through electronic mode.

(5) If The shareholder does not respond to Rights Issue offer within a stipulated time*, it is implied* that he is not interested in the offer and the company can offer the unsold shares to new investors.

(6) The company has to obtain minimum subscription i.e. 90% of the issue.

(2) Bonus issues:

(1) Bonus issues refers to the fully paid up shares given to its existing equity shareholders without any cost, based upon the number of shares they have.

(2) Such shares are given by the company as a gift to its existing equity shareholder out of its profits or reserves.

(3) For this purpose a certain proportion is decided. For instance, if a person holds 100 shares and company declares 1:2 bonus issues, then for every 2 shares held, he gets 1 share for free of cost.

(4) The process of issuing the bonus shares out of company's profits or reserves, is known as 'Capitalisation of Profits'.

Provisions related to Bonus Issues are as follows:

(1) A company can issue Bonus Shares only out of:

• Free reserves or

• Securities Premium Account* or

• Capital Redemption Reserve Account*

(2) A company cannot issue Bonus Shares only out of reserves created by Revaluation of Assets.

(3) The company also cannot issue bonus Shares instead of paying dividend.

(4) Once the announcement for Bonus Shares is made by the Board of Directors then it cannot be withdrawn.

(5) Bonus shares are fully paid up shares. Shareholders cannot give away their bonus shares to another person.

(6) There is no minimum subscription to be collected.

(4) Explain the statutory provisions for allotment of shares.

Ans. <u>Allotment of Shares:</u>

(1) Allotment of shares means company allot (to give) shares to the general public. Allotment means distribution of shares among the applicants,

(2) When a public company wants to issue the shares to the general public, it has to issue prospectus to invite general public to subscribe to its shares.

Statutory provisions of allotment of shares

1.Registration of Prospectus

2. Over subscription

3. Application money

4. Depositing the application money

5. Minimum subscription

6. Appointment of Managers to the issue and various other agencies

7. Permission to deal on Stock Exchange

8. Closing of the subscription list

9. Beginning of allotment work

The statutory provisions for allotment of shares are as follows:

(1) Registration of Prospectus:

- The Company has to file a copy of prospectus with the Registrar of Companies (ROC) while raising its capital by issuing the shares to general public.

- When the company raise the capital privately, it has to prepare 'Statement in lieu of Prospectus'.

(2) Over Subscription:

- In the case of over subscription, the company has to refund the excess application money to the applicants.

- If it is failed to do so in prescribed time then every officers of the company would be punishable.

- SEBI does not allow any allotment in excess of securities offered through offer document or prospectus.

– However, it may permit to allot not more than 10% of the net offer.
(3) Application Money: The part of the face values of shares which is collected by the company along with share application, is known as 'Application Money. Application money should not be less than 5% of the face value of share. SEBI has specified (for public companies) the application money should not be less than 25% of the nominal amount of shares.

(4) Depositing the Application Money: As per this condition the company has to deposit the money into separate account known as Share Application Money Account' opened in scheduled bank by the company.
Company is not allowed to withdraw this amount.

(5) Minimum Subscription: Minimum subscription is the minimum amount raised by the company for obtaining trading certificate and to start the work of allotment of shares. This amount is mentioned in the prospectus.

- It must be collected within thirty (30) days from issue of prospectus. Minimum subscription amount should be 90% of issued capital.

- SEBI has stated minimum subscription should be 90% of the issue:

- Usually when a company does not collect minimum subscription, it means its issue has been under subscribed i.e. the number of shares applied for is less than the shares offered by the company.

- If minimum subscription is not collected within the specified time, the entire amount received as application money should be returned to the subscribers within fifteen days of closure of issue.

- To avoid such a situation, company may enter into an underwriting agreement* with the underwriters.

(5) Appointment of Managers to the issue and various other agencies:

- Company has to appoint one or more Merchant Bankers to act as managers to the public issue.
It also has to appoint:

• Registrar to the issue,

• Collecting Bankers,

• Underwriters to the issue and Brokers to the issue.
• Self-certified syndicate banks,

• Advertising agents etc.

(6) Permission to deal on Stock Exchange:

- Every company, before making a public offer shall apply to one or more recognized Stock Exchanges to seek permission for listing* its shares with them. For this, the prospectus shall mention the name of the Stock Exchange.

- In addition, an application for permission to list in that stock exchange has to be made by the company.

- If permission is not given by stock exchange, the allotment made shall be considered void.

(7) Closing of the Subscription List:

- There is no provision in the Companies Act regarding the closing of subscription list.

- But as per SEBI guidelines subscription list must be issued for minimum 3 and maximum 10 working days.

- In case of Rights issue, the subscription list be open for not more than 60 (sixty) days.

(8) Beginning of allotment work:

- The company can start the work of allotment after 5 days of opening the issue (in case of filing of prospectus) and within 3 days (in case of filing statement in lieu of prospectus). This enables the member of public to go through the prospectus thoroughly and decide.

5. Explain briefly the procedure for allotment of shares.

Ans. (1) Allotment of shares means company allot (to give) shares to the general public. Allotment means distribution of shares among the applicants.

(2) When a public company wants to issue the shares to the general public, it has to issue prospectus to invite general public to subscribe to its shares.

Procedure for allotment of shares are as follows:

(1) Appointment of Allotment Committee:

- When the subscription list is closed the secretary informs the Board of Directors to make preparations for allotment of shares. If the issue is par subscribed or under subscribed, the Board can do the allotment of shares.

- But if the issue is oversubscribed, the Board has to appoint an Allotment Committee to undertake the work of allotment.

- Allotment committee which consists of Directors and Secretary. This committee decide the basis of allotment and submit a report to the Board. It prepares the formula for allotment of shares.

(2) Hold Board Meeting to Decide Basis of Allotment:

- The secretary makes the necessary arrangement for the Board Meeting, to deal with allotment of shares.

- Board Meeting is held to approve the allotment formula suggested by the Allotment Committee.

- Once the allotment formula is approved, the application and allotment list is made.

- This list contains the names of the allottees i.e. the applicants who will be allotted shares. The list has to be signed by the Chairman and Secretary.

(3) Pass Board Resolution for Allotment:

- The decision regarding allotment of shares, is taken at the Board. Hence, at the board meeting, a resolution is passed to allot shares.

- The resolution also authorises the Secretary to issue letters of allotment and letters of regret.

(4) Collection of Allotment Money:

- The secretary must need to make necessary arrangement with the company's bank for collection of allotment money.

- The letter of allotment states the money to be paid by the applicant on allotment of shares.

- The money has to be paid in the Bank specified by the company within the stipulated time. For all public issues and Rights Issue (from Jan. 2016) ASBA is mandatory.

(5) Arrangement Relating to Letters of Renunciation:
An applicant who has been allotted shares can renounce* the shares in favour of another person.

- The applicant has to fill up a form for renunciation and submit it with the original copy of the letter of allotment to the company.

- After approval from the Board, Secretary enters the name of the new allottees in the application and allotment list.

(6) Arrangement Relating to Splitting of Allotment Letters:

- Splitting means putting the shares in one or more name. Sometimes, the applicant who has been allotted shares can request for splitting of allotment letters.

- After getting the approval of the Board for the splitting, Secretary enters the details of the split in the list of split allotments. Secretary has to also issue split letters.

(7) File Return of Allotment:

- A statement containing details of allotment is called **'Return of Allotment'** . Secretary has to file a 'Return of Allotment with the Registrar of companies within 30 days of allotment of shares.

- The return of allotment contains details of allotment of shares including the names and addresses of allottees, value of shares allotted, amount paid or payable on each shares, etc.

(8) Prepare Register of Members and Issue Share Certificate:

- The secretary prepares Register of members on the basis of share application allotment lists. Secretary has to enter the names of all those applicants who have paid the allotment money in the Register of Members.

- Secretary also has to prepare the Share Certificates and distribute it to all the members within two months of allotment of shares.
- Share certificate is issued in exchange of letter of allotment and receipt of allotment money.