UNIT – 4

Financial Structure of Company

Shares • Allotment • Transfer • Dividends • Debentures • Deposits • Charges

Company Law – Course I

SYNOPSIS

Unit Overview

This unit covers the financial structure of a company – share capital and its types, allotment and transfer of shares, rights of shareholders, dividends, prohibition of buy-back and private placement, debentures including floating charge and debenture trustees, acceptance of deposits, and charges on assets.

LEARNING OBJECTIVES

What You Will Learn

01 Shares

Classify different types of shares and share capital

02 Allotment

Explain the law of allotment and transfer of shares

03 Dividends

State rules for declaration and payment of dividends

04 Debentures

Understand debentures, floating charge and trustees

05 Deposits

Know the provisions relating to acceptance of deposits

06 Charges

Explain registration and types of charges

Sources of Capital – Share Capital

Equity Shares	Carry voting rights and residual claim on profits and assets
Preference Shares	Preferential right to dividend and repayment of capital
Authorised Capital	Maximum capital the company is authorised to issue
Issued / Subscribed / Paid-up	Different stages of capital

Types of Shares and Rights of Shareholders

Equity with Differential Rights	Permitted under prescribed conditions
Preference – Cumulative / Non-cumulative	Regarding arrears of dividend
Redeemable Preference	Can be redeemed as per terms
Rights of Shareholders	Vote, dividend, inspection of registers, residual assets on winding up

Allotment of Shares

Meaning	Appropriation of shares to an applicant by the company
Conditions	Minimum subscription, application money, etc. must be fulfilled
Return of Allotment	Must be filed with ROC
Irregular Allotment	Consequences and remedies available to allottees

TRANSFER

Transfer of Shares

Public Company	Shares are freely transferable
Private Company	Transfer restricted as per AOA
Procedure	Instrument of transfer, delivery of share certificate, registration
Refusal	Board may refuse registration on limited grounds; appeal lies

Dividends – Declaration and Payment

Source	Only out of profits of the company or free reserves
Declaration	By Board (interim) or by shareholders on recommendation of Board (final)
Time Limit	Must be paid within prescribed period
Unpaid Dividend	Transferred to Unpaid Dividend Account and then to IEPF

Prohibition of Buy-back and Private Placement

Buy-back	Permitted only under Section 68 subject to conditions; certain buy-backs prohibited
Private Placement	Offer of securities to a select group; governed by Section 42
Conditions	Special resolution, private placement offer letter, allotment within time limit

Debentures – Meaning and Kinds

Meaning	Instrument evidencing a debt due from the company
Kinds	Secured / Unsecured, Redeemable / Irredeemable, Convertible / Non-convertible
Floating Charge	Charge on a class of assets which remains fluctuating; crystallises on certain events

DEBENTURES 2

Debenture Trustees and Remedies

Appointment	Mandatory when prospectus / offer is issued to more than 500 persons
Duties	Protect interests of debenture holders; enforce security
Remedies of Debenture Holders	Sue for principal and interest, appoint receiver, enforce security, petition for winding up

DEPOSITS

Acceptance of Deposits by Companies

Meaning	Any receipt of money by way of deposit or loan
Restrictions	Public companies and private companies subject to different limits and conditions
Deposit Rules	Companies (Acceptance of Deposits) Rules prescribe the framework
Repayment	Must be repaid as per terms; default has serious consequences

Charges on Assets

Meaning	Interest or lien created on property as security for debt
Types	Fixed charge and Floating charge
Registration	Certain charges must be registered with ROC within prescribed time
Effect of Non-registration	Charge becomes void against liquidator and creditors

SUMMARY POINTS

Must-Remember Points

- Share capital is the primary source of long-term finance; equity and preference shares have different rights.
- Allotment and transfer of shares are regulated to protect investors.
- Dividends can be paid only out of profits; unpaid dividends go to IEPF.
- Debentures create debt; floating charge and debenture trustees are important protections.
- Acceptance of deposits and creation of charges are strictly regulated under the Act and Rules.