

Course: PGDFM

Paper I

Topic: Shares and its Types

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## **What are Shares and Types of Shares**

To know shares and its types, one must have a basic knowledge about shares and its role in a company. Shares are an instrument for raising capital for a business by distributing it to investors.

### **Shares meaning and Types:**

A share is referred to as a unit of ownership which represents an equal proportion of a company's capital. A share entitles the shareholders to an equal claim on profit and losses of the company. There are majorly two kinds of shares i.e. equity shares and preference shares.

Different types of shares

As per section 43 of the Companies Act 2013, the share capital of the company is of two types:

- Preference Share Capital

Preferential shares are preferential in nature. During the liquidation of the company, the shareholders holding preferential shares are paid out first after settling the debts of the creditors of the company. Also, preferential shareholders do not have any voting rights. Various types of

preferential shares are seen based on structure, maturity terms, nature of dividend payment, etc.

below are some common types:

- **Cumulative Preference Shares:**
  - Arrear will be received in subsequent years
  - At the time of inadequate profit, you will not lose anything.
  - The fixed rate of dividend is guaranteed.
- Non-cumulative Preference Shares:
  - At the time of inadequate profit, they will not get anything.
  - Fixed rate of dividend is guaranteed.
- Participating Preference Shares
  - Entitled to share the surplus profit
  - Fixed rate of dividend is guaranteed
- Non-participating Preference Shares:
  - Does not share the surplus profit.
  - Fixed rate of dividend is guaranteed.
- Convertible Preference Shares
  - It can be converted into Equity shares within a certain period.
- Non-convertible Preference Shares:
  - It cannot be converted into Equity shares.
- Redeemable Preference Shares:
  - Shares which a company may repay after a fixed period of time or earlier.
- Irredeemable Preference Shares:

- Shares are repayable only at winding up.
- It does not carry the arrangement for redemption. .

- **Equity Share Capital:**

Equity Shares are also known as ordinary shares. Equity shares are one of the most common types of share. These are equal in value and also impart various rights like voting rights, dividends, etc. to the shareholders. These shares are traded in stock exchange and are issued at a face value.