

# TYPES OF SHARES

Classes of Shares;

- Preference shares
- Equity shares

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# WHAT IS A SHARE?



A **share** is defined as, “a share in the share capital of the company”

- ❖ Share capital of the company is collected by issue of shares.
- ❖ Share is one of the units into which total capital is divided.

# CLASSES OF SHARES

## ◆ Preference Shares

1. It offers a fixed rate of dividend.
2. Right to get capital on winding up, before anything is paid to equity shareholders.

## ◆ Equity or Ordinary Share

1. These shares have voting rights.
2. It doesn't offer a fixed rate of return.
3. They are not entitled to get capital in case of company's bankruptcy, before paying to preference shareholders.



# TYPES OF PREFERENCE SHARES

Each share is described by one option in 3 categories:

## 1. Cumulative Preference Shares

- Fixed rate of dividend is guaranteed.
- At the time of inadequate profit, they will not loss anything.
- Not paid dividends **will be paid** in subsequent years.

## Non-Cumulative Preference Shares

- Fixed rate of dividend is guaranteed.
- At the time of inadequate profit, they will not get anything.

## 2. Redeemable Preference Shares

- Allows the issuer to buy back shares after a fixed period of time or earlier at a certain price and retire it.

### Irredeemable Preference Shares

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

## 3. 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.

# EQUITY SHARES

A share that gives the person who owns it the right to receive part of a company's profits and to vote at shareholder meetings.

- The whole of the profit of a company is entitled to these shareholders, after paying a fixed dividend to preference shareholders.
- They doesn't get a fixed rate of dividend.
- They will get back their capital only after paying preference share holders.

# SWEAT EQUITY SHARES

- It is issued to employees or directors of a company at discounted rate.
- Issued for consideration other than cash.

It must follow these conditions;

1. Authorised by special resolution in general meeting.
2. Number, price, consideration (if any) and classes should be specified in the resolution.
3. The company must complete one year.
4. Equity shares of those company must be listed in recognised stock exchange.

# DIFFERENCE BETWEEN..

- ◉ Nominal value is lower.
- ◉ Dividend varies according to profit.
- ◉ No right for arrears of dividend.
- ◉ No priority in dividend and repayment of capital.
- ◉ Cannot be redeemed.
- ◉ There is more risk.
- ◉ Wider voting right.
- ◉ Control over management.
- ◉ Highly speculative.
- ◉ Ready to take risk and to get greater dividend prefer this.

## Equity Shares

- ◉ Nominal value is higher.
- ◉ Rate dividend is fixed.
- ◉ Cumulative preference shares get arrears.
- ◉ Priority in dividend and repayment of capital.
- ◉ Can be redeemed.
- ◉ The risk is lower.
- ◉ Limited voting right.
- ◉ No control over management.
- ◉ Less speculative.
- ◉ Not ready to take risk and expect steady income prefer this.

## Preference Shares



Thank You