Financial accounting and Management

Lecture → 13

7/4/2020 (B.C.A - 2 Sem),

unit - 5

Topic → Kinds of Preference Shares.

Preference shares are of the following types:-

These are the Shares on which dividend goes on accounting, till it is fully paid off. the arrears of any year's dividend are carried forward as a charge upon the subsequent years profits.

* if the Articles Contain express provisions to this effect, or

* The articles, upon their true constructions, give the preference Sharholders a clear right to the dividend.

* Non-cumulative preference Shares.

These are the Shares on which the dividend does not go on accumulating. if there are no profit or there are inadequate profits in any year, these Shares get no dividend or get a partial dividend. They can not claim arrears of dividends of any year/year out of profits of the subsequent years.

* **Participating preference Shares**

These share are not only entitled on a fixed rate dividend but also to a share in the surplus profits which remain after the claims of equity shareholders have been meet.

* **Non-participating Preference Shares**

These share are entitled to only a fixed rate of dividend. The holders of these shares do not share in the surplus profits which go to the equity share holders.

* **Convertible Preference shares.**

These are the shares which entitle their holder to convert them into equity shares with in a certain period.

* **Non-Convertible preference Shares.**

These are the Shares which do ~~entitle~~ ~~theirs~~ not Confer on their holder a right of Conversion into equity Shares.

* **Redeemable preference Shares:**

A Company limited by Shares may, if so authorised by its articles, issue preference Shares which are to be redeemed.

Advantages of preference Share

Advantages to the Company:

* No legal obligation to pay dividend.
* provide a long-term Capital.
* Fixed rate of dividend.
* No Interference in Management.
* No Charge on assets.

Advantages to the Investors.

* Regular fixed Income

* Super Security.

* Provides preferentials rights.

Advantages of Equity Share Financing

To the Company :-

* Permanent Capital
* Increased debt Capacity
* No fixed burden.

To the Investors :-

* More Income

* Right to participate in Management.

* Good Source of Investment.

* Interest in Company's activities.

30. Right issue / Right Share

Each holder owning Shares on a Certain date recieves an option to buy a Certain number of new shares. The Shareholder is given notice of this fact and is Subsequently issued a form Called a right, which outlines the terms and Conditions of the options.

Share warrants:

A warrant is an option to purchase a Specified number of Shares at a Specified price during or at the expiry of a Specified period. So, a warrant gives the holder the right to purchase from the Company a fixed number of Shares in future at a pre-determined price.

Long term debt Securities.

A bond or a debenture is the basic debt instrument which may be issued by a borrowing company for price which may be less than, equal to or more than the face value.

In all these Instruments, the basic features of being in the nature of a loan is not dispensed with the therefore, these Instrument have some of the other common feature as follows:-