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Procedures for Issue and Allotment of Shares Provisions of Companies Act

A private company can start business as soon as it gets the certificate of incorporation. It is prohibited by law to issue any prospectus, inviting the general public to subscribe towards its share capital. The shares are taken up privately by the promoters and their relatives and friends. But in case of public company, a proper procedure has been laid down in the Companies Act for the issue and allotment of shares. The following are the main provisions of the Companies Act relating to the issue and allotment of shares.

Provisions of Companies Act relating to issue and allotment of shares

1. A public company must file a **prospectus or statement** in lieu of prospectus, inviting offers from the public for the purchase of shares in the company.
2. After studying the prospectus, the **public applies for shares of the company** in the printed prescribed forms. The company can ask for the **issue price of the share** to be paid in full along with the application or it can be payable in installments as share application money, share allotment money, share first call, share second call and so on. The amount payable as application money must be at least 5 percent of the nominal amount of the share.
3. No allotment of shares can be made unless the '**Minimum Subscription**' as given in the prospectus had been subscribed or applied for. Minimum Subscription is the minimum amount which, in the

estimate of the directors, is required to run the business. It has to be stated in the prospectus.

4. The amount of **share application money must be deposited in a bank**. It can be operated by the company only after getting the certificate of commencement.

5. If the minimum subscription amount of 90% of the issue was not achieved by the company within 60 days from the date of closure of the issue, the company has to refund the entire subscription amount immediately. For any delay beyond 78 days, the company has to pay an **interest of 6% per annum**.

After allotment, the directors can call upon the shareholders to pay the full amount due on shares in one or more installments as mentioned in the prospectus. The articles of a company usually contain provisions regarding calls. If there is no such provision in the Articles, the following provisions shall apply:

i. No call shall be for more than 25% of the nominal value of each share.
ii. Interval between any two calls should not be less than one month.
iii. At least 14 days' notice must be given to each member for a call specifying the amount, date and place of payment.
iv. Call should be made on a uniform basis on the entire body of shareholders falling under the same class.