Difference between Bonus Shares and Right Shares

Share capital is the most popular and convenient source of long term finance for companies. The organisations utilise multiple types of issues to raise public funds from the capital market. The IPOs and FPOs are one of those issues through which a company issue (sell-off) financial securities like equity shares for the investors to subscribe.

The right issue and bonus issue are other types of issues which the companies utilise to raise capital and as cash alternatives in different circumstances.

Bonus Shares and Right Shares:

The **Right Shares** refers to those issues of shares which a company offers to their existing shareholders at a discounted price. The company's shareholders have rights to accept or reject the proposal and also there are minimum criteria for subscriptions of the share if the shareholder accepts the proposal. Such issuance of shares is called Right issues and such share is known as Right Shares.

The company notifies to each shareholder regarding the issuance of the right share. The shareholders have to respond the notice within a stipulated time period, however, they have the option to either subscribe fully or partially or avoid or can sell the offer as well in the market.

On the other hand, **bonus shares** refer to the shares which are issued free of cost to their shareholders on a specified date by the companies. The bonus shares are issued at a certain proportion (eg. 1:1 or 2:1 or 3:1) according to the shareholders' stake in the company.

The bonus shares are issued when the companies don't want to disburse cash dividend to their shareholders, in such scenario, they issue bonus share to handle liquidity crunch of their shareholders. The bonus shares can also be issued if a company requires to decrease its share price in the market to make shares affordable to small investors.

The bonus shares can also be issued in case of surplus reserves and the intention of the company is to expand its operations. Due to the bonus issue, the share price of the company reduces and being affordable the demand of shares increases and thus the price of the share is also appreciated.

Bonus Shares vs Right Shares (Comparison Table):

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BASIS OF COMPARISON	RIGHT SHARES	BONUS SHARES
Meaning	Right shares are issued on discounted price to the existing shareholders and they have option to agree or deny the offer.	Bonus shares are issued free of cost to the shareholders in a certain ratio, other than a dividend.
Prices	Less than the current market price	Free of cost
Purpose	To raise quick and additional funds	To bring share price down and as an alternative to cash dividend.
Subscription	Minimum subscription is mandatory	Not required
Paid-up Value	Fully or partially paid-up.	Always fully paid-up
Effect on Market Share Price	May or mayn't decrease unless the shareholders sell off the shares.	Always reduce based on issued ratio.
Creation & Renunciation	These are additional shares created by the company and can be renounced partially or fully.	These shares are created from the company's profits, reserves & surplus and such renunciation option is not available.

1) Meaning:

As we discuss above right shares which are issued to the shareholders at discount over current market price, however, bonus share is issued free of cost at a certain ratio to the company’s shareholders.

2) Prices:

The right shares are issued at a discounted price, on the other hand, bonus shares are issued free of cost (as a reward).

3) Purpose:

The right shares are issued with an intention to raise additional and quick funds for the company whereas the objective of issuing bonus share is to decrease the share price to make it affordable.

4) Subscription:

In case of right shares, the shareholders have to subscribe a minimum number of shares if agree otherwise they can refuse the company's proposal, on the other hand, there are no such criteria in bonus shares.

5) Paid-up Capital:

The right shares may be either fully paid up or partially paid up, however, bonus shares are always fully paid up.

6) Effect on Market **Share Price:**

The share price of the issuing company may or may not decrease in case of right issues provided the shareholders should not sell off their rights in the open market whereas bonus issue always reduces the share price according to which proportion it is issued.

7) Creation & Renunciation:

The right shares are extra shares formulated by the company in order to raise quick and additional funding. The shareholders possess the rights whether to renounce partially or fully while bonus shares are created from the company's net profits or reserves and surplus. Moreover, there is no such renunciation option available for in case of bonus issues.

Conclusion:

In a nutshell, the difference between right shares and bonus shares can be concluded as the right share is issued at a lower price than the current market share price whereas bonus share is issued as a reward to the shareholders of the company on a specified date ie. the shareholders must have the company's equity shares into their Demat account on that specific date.

Call on Shares

Meaning of call on shares: It means demand by the company on its shareholders to pay the whole or part of the balance remaining unpaid on each share. When shares are issued to the public, a part of the amount is paid with application and a part on the allotment of shares. The amount paid on application and allotment is not calls unless the Articles expressly recognise them as call. The unpaid amount on each share is called by the company in one or two instalments. These instalments are known as calls.

According to section 49 of the Companies Act, 2013, states Calls on shares of same class can be made on uniform basis. Here the shares of the same nominal value on which different amounts have been paid-up shall not be deemed to fall under the same class.

Whereas section 50 of the Companies Act, 2013 says that a company may collect calls in advance if authorised by its articles. Detailed discussion for the same is done below.

(a) Rules for making calls: The Board of Directors alone is empowered to make a call. The power cannot be delegated to a director or to a committee of directors or to any other officer of the company (Section 179 of the Companies Act, 2013). A call on the shares falling under the same class must be made on a uniform basis. The power to make calls must be exercised bona fide for the benefit of the company. Shares of the same nominal value, on which different amounts have been paid up, are not deemed to fall under the 'same class'. The Board's resolution making the call must specify the amount of call per share and the time allowed for its payment.

(b) Payment of calls in advance: We shall also know how payment in advance of calls is treated by a company. A company may, if so authorised by the articles, accept from any member the whole or a part of the amount remaining unpaid of any shares by him although no part of that amount has been called up [Section 50, the Companies Act, 2013]. The amount so received or accepted is described as payment in advance of calls. When a company receives payment in advance of calls, the consequences will be as follows:

- The shareholder is not entitled to voting rights in respect of the moneys so paid by him until the same would be called for.
- The amount received in advance of calls is not refundable.
- In the event of winding up the shareholder ranks after the creditors, but must be paid his amount with interest, if any before the other shareholders are paid off.
- The Board may pay interest on such advance but not exceeding 12%
- The shareholder is entitled to claim interest on the amount of the call to the extent payable according to articles of association. If there are no profits, it must

be paid out of capital, because shareholder becomes the creditor of the company in respect of this amount.

- No dividend is payable on calls in advance
- The shareholder’s liability to the company in respect of the call for which the amount is paid is extinguished.

Bare Act:

Section 49. Calls on shares of same class to be made on uniform basis.*—Where any calls for further share capital are made on the shares of a class, such calls shall be made on a uniform basis on all shares falling under that class.*

Explanation.—For the purposes of this section, shares of the same nominal value on which different amounts have been paid-up shall not be deemed to fall under the same class.

50. ***Company to accept unpaid share capital, although not called up.****—(1) A company may, if so authorised by its articles, accept from any member, the whole or a part of the amount remaining unpaid on any shares held by him, even if no part of that amount has been called up.*

(2) A member of the company limited by shares shall not be entitled to any voting rights in respect of the amount paid by him under sub-section (1) until that amount has been called up.

Calls on Shares

Reputed companies require the applicants to send the full value of the shares along with the applications. This is because, the Companies Act does not prohibit companies to collect the entire amount at the time of issue itself. But the usual practice of the companies is to collect a certain percentage of the face value of the shares on application and allotment and the balance in one or more installments known as calls.

Meaning and Definition of Calls

A call may be defined as a demand made by the company on its shareholders to pay a part or the whole of the unpaid balance within a specified time. Lord Lindley says that the expression "Call" denotes both the demand for money and also the sum demanded.

The following points should be noted, in this context, so that the reader can understand what a call really means.

1. **Time for Making the Call**: The call can be made at any time during the life time of the company or during the course of winding up. During the life time, the call should be made by the Board of Directors and during the course of winding up, it should be made by the liquidator.
2. **Obligatory**: Each shareholder is obliged to pay the amount of call as and when the call is made. But, this liability arises only when the call is made and not before.
3. **Debt Due**: As soon as a call is made, the call amount shall become a debt due from the shareholders to the company.
4. **Consequences of Default**: If a shareholder fails to pay the call amount, the company can enforce payment of the amount together with interest or can forfeit the shares.
5. **Calls and Other Payments**: A call is different from other payments made by a shareholder. The amounts paid on application and allotment are not calls. Similarly, if a company requires the shareholders to pay the entire amount either on application or on allotment, it is not a call under this Act.

Legal Provisions Relating to the Calls

The statutory provisions relating to the making of calls can be summed up as follows:

1. Call should **Bona fide**: The power to make call is generally in nature of a trust and so it can be exercised bona fide and for the benefit of the company. It should not be made for private ends. It means the directors or the liquidator can make the call only when there is a bona fide need for funds.
2. **Uniformity**: The calls should be made on an uniform basis on all the shares falling under the same class . If a call is made only on some shareholders of the same class but not on others or a greater amount is demanded from some shareholders and a lesser amount from others of the same class, the call is not valid.
3. **Provisions of the Articles**: The calls should be made strictly in accordance with the provisions of the Articles. If this is not done, the call will be invalid.

Procedure for making Calls

Generally, the procedure for making calls is incorporated in the Articles of most companies. If a company has its own Articles, it should follow the provisions of its Articles. If not, the regulations specified in Table A of the Act shall apply.

The following provisions of Table A can be noted at this stage.

1. The power to make calls generally vests in the Board of Directors.
2. The calls should be made by passing a resolution at the meeting of the Board.
3. The call money should not exceed 50% of the face value of the share at one time. However, companies may have their own Articles and raise this limit.

4. There must be at least 30 days interval between two successive calls.

5. When a call is made a letter known as "**Call Letter**" or "**Call Notice**" should be sent to all the shareholders of the same class.

6. The notice should also specify the amount of the call, place of payment etc. and should be sent at least 14 days before the last date for payment.

7. The Board of directors has the power to revoke or postpone a call after it is made.

8. Joint shareholders are jointly and severally liable for payment of calls.

9. If a member fails to pay call money, he is liable to pay interest not exceeding the rate specified in the Articles or terms of issue. The directors are free to waive the payment of interest.

10. If any member desires to pay the call money in advance, the directors may at their discretion accept and pay interest not exceeding the rate specified in the Articles.

11. A defaulting member will not have any voting right till call money is paid by him.