Memorandum of Association

Capital of company:

If a company is limited liability Company with share capital, memorandum must state not only the amount of share capital but also its division into shares:

For example:

If a company has total authorized share capital of Rs. 100,000 and the par value of one share is Rs. 10

Memorandum must state:

- Total share capital of company is 100,000 which has been divided into 10,000 shares of Rs. 10 each
- 10,000 shares X Rs 10 per share = 100,000 total authorized capital.

Memorandum states the authorized capital in other words authorized capital is registered capital of the company which a company can issue during the course of its business. Now the question is whether a company can change its authorize capital or not once defined in memorandum of association, yes it can but after going through special procedure and after the alteration of memorandum.

- Once your authorize capital is defined now you can issue shares up to the amount of your authorize capital without paying any further duty.
- There is no legal minimum or maximum. Authorize capital is always defined by the considerations of business.

Suppose:

If the business consideration of your company is retail store in this case 20 million may be enough authorize capital but if your business consideration is steel production and you want to start with a steel mill in this case 20 million may be very less.

Now the question arise that why not a retail store simply define its share capital 50 million so that the chance of change in authorize capital is minimum. But a company has to pay fee according to authorize capital so if 20 million authorize capital is enough for your business, why are you paying the processing fee for 50 million.

So, companies always define share capital according to the nature of business.

Issued capital:

Issued capital is the capital of company which has been issued:

For example your authorize capital is 100,000 which was divided into 10,000 shares of Rs. 10 each but you have just issued 6000 shares and remaining 4000 shares are still save at your shelf and you can issue more 4000 shares when you need it,

Because you have issued 6000 shares and the par value of one share is Rs. 10 so your issued capital is 60,000,

Now if you see the authorize capital of your company is 100,000 but your issued capital is 60,000.

Paid up Capital:

In most cases issued and paid up capital is same but paid up capital is the capital for you have received cash for example in above example our issued capital was 6000 shares of Rs. 10 each mean 60,000 Rupees but out of these 6000 shares 1000 shares was given to directors as bonus or promoters of the company has kept these shares with themselves and actually paid nothing and remaining 5000 shares were issued to general public, so in this situation:

Authorize capital is 10,000 shares of Rs 10 each = 100,000

Issued capital is 6,000 shares of Rs 10 each = 60,000

Paid up capital is 5000 shares of Rs. 10 each = 50,000

But difference in issued and paid up capital is very rare because most of the time even promoters of the company keep shares for cash consideration.

There are different classes of shares:

- Common shares and further common shares are class A shares and Class B shares for having voting right or no voting right in the AGM.
- Preference shares and further common share are participative and non participative, cumulative and non cumulative etc

But these classifications are the internal matter of company and company defines its classification in the Article of Association not in the memorandum of association. Memorandum of association only defines the authorize capital of the company.

Normally power to increase or decrease issued capital and paid up capital is defined in the article of Association not in the memorandum of association.

So, whenever you are changing your issued or paid up capital you need to make some changing in the article of association.

- Section 92 deals with the increase in share capital
- Section 96 deals with the decrease in share capital

Change of Capital clause:

- If you are making changing according to section 92 means you are increasing your share capital you will simply pass a resolution in your AGM, make some necessary changing in the article of association and you can increase your share capital
- Where you are making changing according to the section 96 of the company's ordinance mean you intend to reduce your share capital now you require the permission from your company court of the area and then you will pass resolution of change and make changing in the article of association
- If you have different classification of shares and each class of shares has been given specific rights attached with their shares now to save the rights of shareholder you will give them the right to appeal against change of capital in the court. If no one appeals in certain time period now you can change according the procedure defined before.

Alteration of share capital:

A limited company may if so authorize by its articles:

- Increase its share capital by such amount as it thinks fit.
- Consolidate the whole or any part of its shares capital into large amount then its existing shares.
- Divide the whole or any part of its shares capital into small amount then its existing shares.
- Cancel its unissued shares.