

Subject – Secretarial Practices
Subject code- BBA603 / BCH603
Lecture 14

Allotment:

A person intending to buy shares of a company has to make a written application in the prescribed form supplied by the company, together with application money either covering full value of the shares or in part or together with premium if as desired by the company, in case of a widely held public company a share application form is attached to the Prospectus.

The term ‘allotment’ means acceptance of share application by the Board of Directors by passing a resolution at a Board meeting. The Companies Act makes provisions for allotment of shares.

There are three different situations under which allotment takes place and the Company Secretary has to act accordingly. (I) When a new company is promoted and shares are issued or offered for sale then as and when applications together with application money are coming in, the Company Secretary has to do the following:

- (a) To make a chronological (i.e., date and time-wise) record of the applications and sending the money to a scheduled bank.

- (b) To help the Board of Directors in the act of allotment. If applications for shares are received less than the number of shares offered for sale then there is no problem and all the applicants will get shares allotted to them. But problem arises when more applications have come.

Then the Secretary will do, on behalf of the Board of Directors, allotment which may take place under any of the following three methods as to be mentioned in the Articles of Association of the company: They are:

(i) Priority Basis:

Shares will be allotted to those applicants who have applied for shares first, according to chronological order as recorded,

(ii) Pro-Rata Basis:

It is not always justifiable that shares should be allotted on priority basis. And so allotment is made on pro rata basis. Suppose, applications have been received for twice the number of the shares offered for sale. Then each applicant will get half of the shares applied by him accepted and shares are allotted accordingly and the remaining half rejected.

(iii) Lottery Basis:

Applications are drawn at random out of the total number of applications thoroughly mixed up such drawings will continue until all the available shares are allotted and the remaining applications will be rejected. Out of the three systems, the second one is the best.