

Subject – Secretarial Practices
Subject code- BBA603 / BCH603

Lecture 8

(SECRETARIAL DUTIES RELATING TO ALLOTMENT OF SHARES)

ALLOTMENT OF SHARES

You know that a public limited company invites subscriptions from the public and for this purpose a prospectus is issued. In response to this invitation, the prospective investors offer to buy shares by submitting the prescribed application form. If the application is accepted by the company, it proceeds to allot him the shares. With the issue of the letter of allotment, the offer stands accepted thereby giving rise, to a legally binding contract between the company and the shareholder. Thus, an allotment is the acceptance by the company of the offer to purchase shares. The term 'Allotment' has nowhere been defined in the Companies Act. It may be said that allotment is an appropriation by the Board of directors of a certain number of shares to a specified person in response to his application. In other words, allotment means the appropriation out of the previously unappropriated capital of a company, of a certain number of shares to a person.

Notice of Allotment.-

An allotment is the acceptance of an offer to take shares by an applicant, and like any other acceptance, it must be communicated. There can be no binding contract unless the acceptance of the offer is properly communicated. Thus, notice of allotment must be given to the allottee. If the letter of allotment is properly posted i.e., it is correctly addressed and stamped, a contract will arise even if the letter of allotment is delayed or lost in the course of transit. In this letter of allotment, besides other details of the number of shares applied for, the number of shares allotted etc., the allottee is asked to pay the money due on allotment to the company's bankers within a specified time unless there is partial allotment and the allotment money is appropriated out of the excess application money.

Rules regarding Allotment of Shares The rules regarding allotment of shares can be discussed under the two broad headings - (a) general rules and (b) the legal rules.

General Rules you know that the allotment is the acceptance of an offer to purchase certain number of shares. Therefore, the general rules relating to valid acceptance of an offer must be followed. The general rules regarding allotment of shares are as follows:

i) the allotment must be made by proper authority: It is the duty of the Board of directors to allot the shares. However, the Board may delegate this authority to some other person or persons as per the provisions of the articles of association. Allotment of Shares made by an improper authority will make it void.

ii) The allotment should be made within a reasonable time: The offer to purchase shares of the company must be accepted within a reasonable time otherwise the applicants may refuse to take shares because after a reasonable time the offer lapses. What is the 'reasonable time' is a question of fact in each case. iii) It must be communicated: The allotment of shares should be communicated to the applicants. Posting of a properly addressed and stamped letter of allotment will be taken as a valid communication. Even if this letter of allotment is delayed or lost in transit, the allottee will be liable. 'G' applied for certain shares in a company. The letter of allotment was dispatched to him but it never reached. It was held that 'G' was liable as a shareholder (Household Fire Insurance Co. Ltd. v. Grant).

iv) It must be absolute and unconditional. , The allotment of shares must conform to the terms and conditions of the application. If the allotment is not according to the terms and conditions, the applicant may refuse to accept the shares even though allotment has been made to him. If the conditions are not fulfilled, the applicant, . Must reject the shares promptly. His silence or acceptance will debar him from this right.