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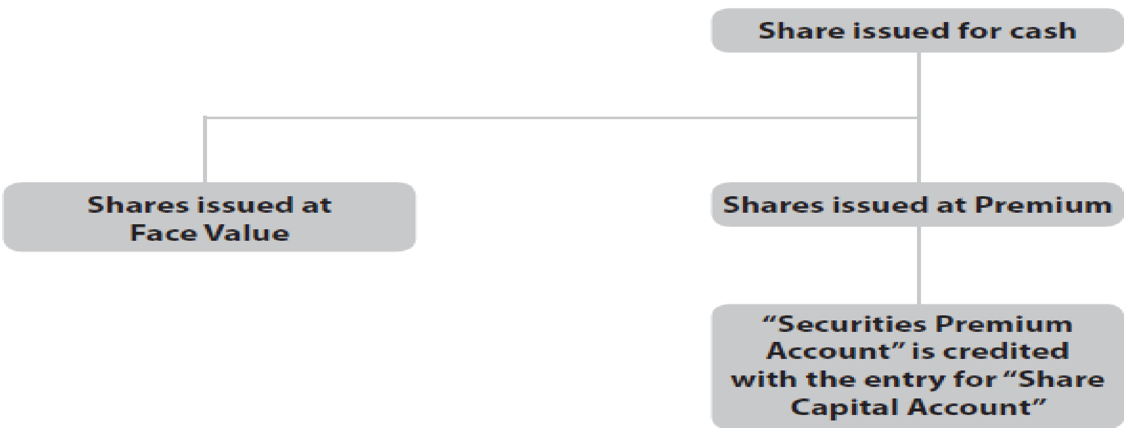
Subject – Accounts and Finance - II

Date 27/03/2020

ISSUE OF SHARES AT PREMIUM AND DISCOUNT

The shares of many successful companies which offer attractive rates of dividend on their existing capitals fetch a higher price than their face value in the market. When shares are issued at a price higher than the face value, they are said to be issued at a premium. Thus, the excess of issue price over the face value is the amount of premium. For example, if a share of Rs.10 is issued at Rs.12, Rs. (12 – 10) = Rs.2 is the premium. the premium on issue of shares must not be treated as revenue profits. On the contrary, it must be regarded as capital receipt.

The Companies Act requires that when a company issues shares at a premium whether for cash or otherwise, a sum equal to the aggregate amount of the premium collected on shares must be credited to a separate account called "Securities Premium Account". There are no restrictions in the Companies Act on the issue of shares at a premium, but there are restrictions on its disposal.



The Securities Premium Account may be applied by the company–

(a) towards the issue of unissued shares of the company to the members of the company as fully paid bonus shares;

(b) in writing off the preliminary expenses of the company;

(c) in writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company;

(d) in providing for the premium payable on the redemption of preference shares or of any debentures of the company; or

(e) for the purchase of its own shares or other securities.

It is to be noted here that utilization of the amount of Securities Premium Account except in any of the modes specified above, will attract the provisions relating to the reduction of share capital of a company.

The Securities Premium Account must be shown as "Securities premium reserves" separately in the liabilities side of the balance sheet under the head "Reserves & Surplus".

Journal Entry of Issue of Shares at a Premium -

JOURNAL ENTRY

When allotment money becomes due:

Share Allotment A/c	Dr.	*(with the money due on allotment including premium)*
To Securities Premium A/c	*(with the premium amount)*	
To Share Capital A/c	*(with the share allotment amount)*	
(Being allotment money due on shares issued at premium)		

Illustration.

Jupiter Company Limited issued 35,000 equity shares of Rs.10 each at a premium of Rs.2 payable as follows: On Application Rs.3 On Allotment Rs.5 (including premium) Balance on First and Final Call The issue was fully subscribed. All the money was duly received. Record journal entries in the books of the Company.

Solution,

Books of Jupiter Company Limited
Journal

Date	*Particulars*	*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
	Bank A/c Dr.		1,05,000	
	To Equity Share Application A/c			1,05,000
	(Money received on applications for 35,000 shares @ Rs. 3 per share)			
	Equity Share Application A/c Dr.		1,05,000	
	To Equity Share Capital A/c			1,05,000
	(Transfer of application money on allotment to share capital)			
	Equity Share Allotment A/c Dr.		1,75,000	
	To Equity Share Capital A/c			1,05,000
	To Securities Premium A/c			70,000
	(Amount due on allotment of 35,000 shares @ Rs. 5 per share including premium)			
	Bank A/c Dr.		1,75,000	
	To Equity Share Allotment A/c			1,75,000
	(Money received including premium)			
	Equity Share First and Final Call A/c Dr.		1,40,000	
	To Equity Share Capital A/c			1,40,000
	(Amount due on First and Final Call of Rs. 4 per share on 35,000 shares)			
	Bank A/c Dr.		1,40,000	
	To Equity Share First and Final Call A/c			1,40,000
	(Money received on First and Final Call)			

Issue of Shares at A Discount

When shares are issued at a price lower than the face value, they are said to be issued at discount. Thus, the excess of the face value over the issue price is the amount of discount. For example, if a share of ` 10 is issued at Rs.9 then Rs.(10 – 9) = Rs.1 is the discount. As per companies Act 2013, a company shall not issue shares at a discount except as provided in section 54 for issue of sweat equity shares. Any share issued by a company at a discounted price shall be void. Where a company contravenes the provisions of this section, the company shall be punishable with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees and every officer who is in default shall be punishable with imprisonment for a term which may extend to six months or with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees, or with both.