Class - B.Com Part - II

Subject : Corporate Accounting

paper : IV

Topic : Share Issued at Premium

Lecture sequence No : 5

unit : 1

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Share Issued at Discount
(Section 53)

Meaning:

When share are issued at a price less than face value (or nominal value) it is said that they have been at discount. For example If a share of Rs10 is issued for Rs 9. Rs (10-9).1/- will be treated at discount on issue of shares.

Prohibition on Issue of shares at Discount:

(1) As per Sec 53 (1) of the Companies Act-2013 "Except as provided in Sec. 54 a company shall not issue share at discount.

(2) As per Sec 53 (2) any share issued by a company at a discounted price shall be void.

(3) As per Sec 53 (3) where a company contravenes the provision of this section. the section 54 is related to issue of Sweat Equity Shares.

Discount on issue on share is a nominal account. Since it represents a capital loss it is prudent to write it off gradually out of profit over a resonable number of years.

(i) In issuing fully paid bonus shares to the members (ii) In writing of the preliminary expenses of the company. (iii) In writing off the expenses incurred or the commission paid or discount allowed on any issue of shares or element debentures of the company or (iv) In providing for the premium payable on the redemption of any redeemable preference or any debenture of the company.
(v) For the purchase of its own shares or any debenture of the company under Section 68.

Accounting Treatment:

Journal Entries:

(1) When Premium is Payable with Application Money:

(a) At the Time of Receipt of Application Money:

Bank a/c Dr
To Share Application
(share application money received along with premium).

(b) At the Time of Transfer of Application Money

Share Application a/c
To Share capital a/c
To Securities Premium a/c
(Application money transfered to share Capital a/c and Securities Premium).

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(2) When Premium is Payable on Allotment:

(1) Share Allotment
To Share Capital a/c
To Securities Premium a/c
(Allotment money due together with premium).

(ii) On receipt of Allotment Money:
Bank a/c Dr
To share Alloment A/c
(Allotment money received including premium)

(3) When Premium is Payable on Call:

(1) Share call a/c Dr.
To share Capital a/c.
To Securities Premium a/c.
(Call money due together with premium)

(ii). When Call money is received.

Bank a/c Dr
To Share Call a/c.
(Call money received including premium).