

VIDYA BHAWAN BALIKA VIDYA PITH

शक्तिउत्थानआश्रमलखीसरायबिहार

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Accounting for Share Capital

Illustration 8

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. To Equity Share Application A/c (Money received on applications for 35,000 shares @ Rs. 3 per share)		1,05,000	1,05,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c (Transfer of application money on allotment to share capital)		1,05,000	1,05,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Amount due on allotment of 35,000 shares @ Rs. 5 per share including premium)		1,75,000	1,05,000 70,000

Bank A/c	Dr.	1,75,000	
To Equity Share Allotment A/c (Money received including premium)			1,75,000
Equity Share First and Final Call A/c	Dr.	1,40,000	
To Equity Share Capital A/c (Amount due on First and Final Call of Rs. 4 per share on 35,000 shares)			1,40,000
Bank A/c	Dr.	1,40,000	
To Equity Share First and Final Call A/c (Money received on First and Final Call)			1,40,000

1.6.6 Issue of Shares at a Discount

There are instances when the shares of a company are issued at a discount, i.e. at an amount less than the nominal or par value of shares, the difference between the nominal value and issue price representing discount on the issue of shares. For example, when a share of the nominal value of Rs. 100 is issued at Rs. 98, it is said to have been issued at a discount of two per cent.

As a general rule, a company cannot ordinarily issue shares at a discount. It can do so only in cases such as 'reissue of forfeited shares' (to be discussed later) and in accordance with the provisions of section 79 of The Companies Act.

It states that, a company is permitted to issue shares at a discount provided the following conditions are satisfied:

- (a) The issue of shares at a discount is authorised by an ordinary resolution passed by the company at its general meeting and sanctioned by the Company Law Board now Central Government.
- (b) The resolution must specify the maximum rate of discount at which the shares are to be issued but the rate of discount must not exceed 10 per cent of the nominal value of shares. The rate of discount can be more than 10 per cent if the Government is convinced that a higher rate is called-for under special circumstances of a case.
- (c) At least one year must have elapsed since the date on which the company became entitled to commence the business.
- (d) The shares are of a class which has already been issued.
- (e) The shares issued within two months from the date of receiving sanction for the same from the Government or within such extended period as the Government may allow.
- (f) If the offer prospectus at the date of issue must mention particulars of the discount allowed on the issue of shares.

Whenever shares are issued at a discount, the amount of discount is brought into the books at the time of allotment by debiting an account called 'Discount

on the Issue of Shares Account'. The journal entry to be passed for the purpose is as given below:

Share Allotment A/c	Dr.
Discount on the Issue of Shares A/c	Dr.
Share Capital A/c	
(Amount due on allotment of – shares @ Rs – per share and discount on issue brought into account.)	

'Discount on the Issue of Shares Account', having a debit balance, denotes a loss to the company and is shown on the asset side of the company's balance sheet under heading 'Miscellaneous Expenditure'. It is written-off by being charging it to the Securities Premium Account if any and, in its absence, by being gradually charged to the Profit and Loss Account over a period of 5 to 10 years.

Illustration 9

Fine Arts Limited issued to the public for subscription of 10,000 shares of Rs.10 each at a discount of 10% payable at Rs. 4 on application, Rs. 3 on allotment and Rs.2 on Ist and the final call. The issue was fully subscribed and all the money was duly received.

Write journal entries for the above in the books of the company.

Solution

Books of Fine Arts Limited Journal

Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Bank A/c Dr. To Share Application A/c (Application money received on 10,000 shares @ Rs. 4 per share)		40,000	40,000
	Share Application A/c Dr. To Share Capital A/c (Application money transferred to Share Capital)		40,000	40,000
	Share Allotment A/c Dr. Discount on Issue of Share A/c Dr. To Share Capital A/c (Amount due @ Rs. 3 per share on Allotment and @ Re. 1 per share discount on 10,000 shares allotted)		30,000 10,000	40,000