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शक्तिउत्थानआश्रमलखीसरायबिहार

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Accounting for Share Capital

Undersubscription

Under subscription is a situation where number of shares applied for is less than the number for which applications have been invited for subscription. For example, a company offered 2 lakh shares for subscription to the public but the applications were received for 1,90,000 share, only. In such a situation, the allotment will be confirmed to 1,90,000 share and entries shall be made accordingly. However, as stated earlier, it must be ensured that the company has received the minimum subscriptions (not less than 90% of the offer otherwise the procedure for issue of shares cannot proceed further and the company will have to refund the entire subscription amount received.

Issue of Shares at a Premium

It is quite common for the shares of financially strong and well-managed companies to be issued at a premium, i.e. at an amount more than the nominal or par value of shares. Thus, when a share of the nominal value of Rs. 100 is issued at Rs. 105, it is said to have been issued at a premium of 5 per cent. When the issue of shares is at a premium, the amount of premium may technically be called at any stage of the issue of shares. However, premium is generally called with the amount due on allotment, sometimes with the application money and rarely with the call money. The premium amount is credited to a separate account called 'Securities Premium Account' and is shown on the liabilities side of the company's balance sheet under the heading 'Reserves and Surpluses'. It can be used only for the following four purposes as laid down by Section 78 of The Companies Act 1956:

- (a) to issue fully paid bonus shares to an extent not exceeding unissued share capital of the company;
- (b) to write-off preliminary expenses of the company;
- (c) to write-off the expenses of, or commission paid, or discount allowed on any of the shares or debentures of the company; and
- (d) to pay premium on the redemption of preference shares or debentures of the company.

The Journal entries for shares are issued at a premium are as follows:

1. For Premium Amount called with Application money

(a) Bank A/c Dr.

To Share Application A/c

(Money received on application for —shares @ Rs. — per share including premium)

Share Application A/c Dr.

To Share Capital A/c

To Securities Premium A/c

(Transfer of application money to share capital and securities premium accounts)

2. Premium Amount called with Allotment Money

(a). Share Allotment A/c Dr.

To Share Capital A/c

To Securities Premium A/c

(Amount due on allotment of shares @ Rs — per share including premium)

(b). Bank A/c Dr.

To Share Allotment A/c

(Allotment money received including premium)