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शक्तिउत्थानआश्रमलखीसरायबिहार

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Accounting for Share Capital

1.6.7 Issue of Shares for Consideration other than Cash

There are instances where a company enters into an arrangement with the vendors from whom it has purchased assets, whereby the latter agrees to accept, the payment in the form of fully paid shares of the company issued to them. Normally, no cash is received for such issue of shares. These shares can also be issued either at par, at premium or at discount, and the number of shares to be issued will depend upon the price at which the shares are issued and the amount payable to the vendor. Thus, to find out the number of shares to be issued to the vendor will be calculated as follows:

$$\text{No. of shares to be issued} = \frac{\text{Amount Payable}}{\text{Issue Price}}$$

For example, Rahul Limited purchased building from Handa Limited for Rs.5,40,000 and the payment is to be made by the issue of shares of Rs.100 each. The number of shares to be issued shall be worked out as follows in different situations :

(a) When shares are issued at par, i.e. at Rs.100

Number of shares to be issued	=	$\frac{\text{Amount Payable}}{\text{Issue Price}}$
	=	$\frac{\text{Rs. 5,40,000}}{\text{Rs. 100}}$
	=	5,400 shares

(b) When shares issued at a discount of 10% i.e., at Rs.90 (100 - 10)

Number of shares to be issued	=	$\frac{\text{Amount Payable}}{\text{Issue Price}}$
	=	$\frac{\text{Rs. 5,40,000}}{\text{Rs. 90}}$
	=	6,000 shares

(c) When shares issued at premium of 20% i.e., at Rs.120 (100 + 20)

Number of shares to be issued	=	<table style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <tr> <td style="text-align: center; border-bottom: 1px solid black;">Amount Payable</td> </tr> <tr> <td style="text-align: center;">Issue Price</td> </tr> <tr> <td style="text-align: center; border-bottom: 1px solid black;">Rs. 5,40,000</td> </tr> <tr> <td style="text-align: center;">Rs. 120</td> </tr> <tr> <td style="text-align: center;">=</td> </tr> <tr> <td style="text-align: center;">4,500 shares</td> </tr> </table>	Amount Payable	Issue Price	Rs. 5,40,000	Rs. 120	=	4,500 shares
Amount Payable								
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Rs. 5,40,000								
Rs. 120								
=								
4,500 shares								

The journal entries recorded for the share issued for consideration other than cash in above situations will be as follows :

**Books of Rahul Limited
Journal**

Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Building A/c Dr To Handa Limited (Building purchased)		5,40,000	5,40,000
(a)	When shares are issued at par Handa Limited Dr. To Share Capital A/c (5,400 Shares issued at par)		5,40,000	5,40,000
(b)	When shares are issued at Discount of 10% Handa Limited Dr. Discount on Issue of Shares A/c Dr. To Share Capital A/c (6,000 shares issued at Rs.90 per share)		5,40,000 60,000	6,00,000
(c)	When shares are issued at premium of 20% Handa Limited Dr. To Share Capital A/c To Securities Premium A/c (4,500 shares issued at Rs.120 per share)		5,40,000	4,50,000 90,000

Illustration 10

Jindal and Company purchased a machine from High-Life Machine Limited for Rs.3,80,000. As per purchase agreement, Rs. 20,000 were paid in cash and balance by issue of shares of Rs.100 each. What will be the entry passed if the share are issued :

- iv) at par
- v) at 10% discount
- vi) at 20% premium

Solution

Number of shares will be calculated as follows:

i) When shares issued at par

$$\frac{\text{Rs. } 3,60,000}{\text{Rs. } 100} = 3,600 \text{ shares}$$

ii) When shares issued at discount

$$\frac{\text{Rs. } 3,60,000}{\text{Rs. } 90} = 4,000 \text{ shares}$$

iii) When shares issued at premium

$$\frac{\text{Rs. } 3,60,000}{\text{Rs. } 120} = 3,000 \text{ shares}$$

**Books of Jindal and Company
Journal**

Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Machine A/c Dr. To Bank A/c To High Life machine Limited (Machine purchased and Rs.20,000 paid in cash and the balance paid by issue of share)		3,80,000	20,000 3,60,000
iv)	When shares are issued at par High-Life Machine Limited Dr. To Share Capital A/c (3,600 Shares of Rs.100 each)		3,60,000	3,60,000
v)	When shares are issued at discount High Life Machine Limited Dr. Discount on Issue of Shares A/c Dr. To Share Capital A/c (4,000 shares of Rs.90 per share issued at discount)		3,60,000 40,000	4,00,000
vi)	When shares are issued at premium High Life Machine Limited Dr. To Share Capital A/c To Securities Premium A/c (3,000 shares issued at Rs.120 per share)		3,60,000	3,00,000 60,000