

ISSUE OF SHARES AT PREMIUM

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Shares are said to be issued at premium when a shareholder is required to pay more than the face value to the company. The excess amount received over the face value is called share premium. It is a capital receipt. The share premium shall be transferred to "Securities Premium A/c". It should be shown on the liability side of balance sheet under the head "Reserves and Surplus".

Journal entries:

(a) If premium is received with application money:

(i) Bank A/c	Dr	
		To Share application A/c
(ii) Share application A/c	Dr	(with total)
		To Share capital A/c (application money)
		To Securities premium A/c (premium)

(b) If premium is received with allotment money:

(i) Share allotment A/c	Dr	(total)
		To Share capital A/c (allotment money due)
		To Securities premium A/c (premium)

(ii) Bank A/c	A/c
	To Share allotment A/c

Issue of shares at discount

Shares are said to be issued at discount when the shareholder is required to pay less amount than the face value to the company. Discount on issue of shares is a capital loss and it should be debited to a separate account called "Discount on issue of shares A/c". It is shown on the assets side of balance sheet under "Miscellaneous Expenditure". The rate of discount should not exceed 10% of nominal value of shares. Generally the discount on issue is recorded at the time of allotment. It is also noted that a newly registered company cannot issue shares at discount. The journal entry is

Share allotment A/c	Dr	(allotment money due)
Discount on issue of shares A/c	Dr	(discount)
		To Share capital A/c (Total)

Illustration 2

A Ltd. Issued 5000 shares of Rs.10 each at a premium of Rs.5 per share. The amount was payable as Rs.3 on application, Rs.7 on allotment (incl. Premium) and the balance on first and final call. All shares were subscribed and money duly received. Show the journal entries.

Solution:

Bank A/c	Dr		15000	
To Share Application A/c (Application money received)				15000
Share application A/c	Dr		15000	
To Share Capital A/c (Transfer of application money to share capital)				15000
Share allotment A/c	Dr		35000	
To Share capital A/c To Securities premium A/c (Allotment money due with premium)				10000 25000
Bank A/c	Dr		35000	
To Share allotment A/c (Allotment money received)				35000
Share first and final call A/c	Dr		25000	
To Share capital A/c (First and final call money due)				25000
Bank A/c	Dr		25000	
To Share first and final call A/c (First and final call money received)				25000

Illustration 3

Balu Ltd. Issued 20000 shares of Rs.10 each at a discount of 10% payable as Rs.2 on application, Rs.3 on allotment and Rs.4 on first and final call. 20000 applications were received and all were **accepted**. **Pass journal entries.**

Solution:

Bank A/c	Dr		40000	
To Share Application A/c (Application money received)				40000
Share application A/c	Dr		40000	
To Share Capital A/c (Transfer of application money to share capital)				40000
Share allotment A/c	Dr		60000	
Discount on issue of shares A/c Dr			20000	
To Share capital A/c (Allotment money due at 10% discount)				80000
Bank A/c	Dr		60000	
To Share allotment A/c (Allotment money received)				60000
Share first and final call A/c	Dr		80000	
To Share capital A/c (First and final call money due)				80000

	Bank A/c To Share first and final call A/c (First and final call money received)	Dr		80000	80000
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