

Tutorial Notes

Class: B.Com (Prog.) Semester III (CC9)

Subject: Corporate Accounting.

Topic: Accounting Entries Regarding Issue of Shares at Par and at Premium.

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A. Accounting Entries Regarding Issue of Shares at Par!

The issue price of a share is normally collected in stages—along-with application, on allotment and later by making one or two calls. The shares become fully paid up only on receipt of all the money due on them.

The accounting entries pertaining to the issue of shares are as follows:

1. on receipt of applications money:

Bank a/c Dr.

To share application a/c

(Being share application money received)

2. On allotment of shares:

(a) Share application a/c Dr.

To share capital a/c

(Being appropriation of application money towards share capital)

(b) Share Allotment a/c Dr.

To share capital a/c

(Being allotment money due on shares @ Rs. per share)

3. When allotment money is received, the following entry is passed:

Bank a/c Dr.

To share allotment a/c

(Being allotment money received)

4. (a) If any call is made on the shares, the following entries are passed:

Share call a/c Dr.

To share capital a/c

(b) On receipt of call money:

Bank a/c Dr.

To share call a/c

B. Issue of Share at Premium (Accounting Entries):

Section 78 of the companies Act, as amended by the Companies Amendment Act 1999 provides that the amount of premium on the securities issued by the company shall be transferred to Securities Premium Account. Generally, premium money is received along-with allotment money.

In such a case, the following entries are passed:

(a) Bank a/c Dr.

To share application a/c

(Being application money received)

(b) Share application a/c Dr.

To share capital a/c

(Being application appropriated towards capital a/c)

(c) Share Allotment a/c Dr.

To share capital a/c

To securities premium a/c

(Being allotment money and premium money due on share)

(d) Bank a/c Dr.

To share allotment a/c

(Being allotment money received)

The Companies Act does not impose any restriction on the issue of shares at a premium. However, it is only prosperous companies because of their financial strength and high earning capacity which are in a position to offer shares at a premium.

As per provisions of Companies Act, the premium money must be credited to a separate account called securities premium account.