Tutorial Notes

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

Subject: Corporate Accounting.

Topic: Issue of shares at discount, conditions for it & JE Regarding Issue of Shares at Discount.

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Issue of Shares at Discount

In general, share means a portion of a larger thing. Similarly, in real market share is a small proportion of the total amount of capital of the enterprise. Shares form the major source of any company's finance in this present world.

Shares tempt the investors also because it can give huge profits to them unlike the fixed rate of return on debentures. There are various ways or prices at which a company issues its shares like at par, at a premium and at discount.

The issue of shares at a discount means the issue of the shares at a price less than the face value of the share. For example, if a company issues share of Rs.100 at Rs.90, then Rs.10 (i.e. Rs 100—90) is the amount of discount.

It is nothing but a loss to the company. One must remember that the issue of share below the Market Price (MP) but above the Face Value (FV) is not termed as 'Issue of Share at Discount'.

The issue of Share at Discount is always below the Nominal Value (NV) of the shares. The company debits it to a separate account called 'Discount on Issue of Share' Account.

Conditions for Issue of Shares at Discount

1. In order to issue the shares at a price less than the face value, the company has to get permission from the relevant authority. For seeking permission, they should call and upon a general meeting and discuss and authorize the matter in that meeting.
2. There is a cap on the rate of discount. A company cannot issue any shares at more than 10% discount.
3. The company should issue the shares within 60 days of receiving permission from the relevant authority. In certain cases, the company can extend this time frame after getting permission in the permission.
4. The company cannot issue these shares before passing of 1 year from the date of commencement of business.
5. The shares must belong to the same class of shares which are already available in the market. For example, if the has previously issued Equity shares then this time also, the company has to issue Equity shares only.
6. Also, the company has to acquire the sanction by the Central Government after getting approval from the general meeting.

Journal Entries

Generally, the shares are issued at discount at the time of allotment of shares. So, all the entries other than the allotment entries will be unaffected by these shares.

1. Entry for Due of Allotment

Share Allotment A/c Dr.

Discount on Issue of Shares A/c Dr.

To Share Capital A/c Cr.

(Being the allotment money due)

2. Entry for Amount Received

Bank A/c Dr.

To Shares Allotment A/c Cr

(Being the receipt of the amount of allotment)

3. Writing-off the Discount on Issue of Shares

Profit and Loss A/c/ Securities Premium A/c Dr.

To Discount on Issue of Shares Cr.

(Being the amount of discount on issue of shares written off)