



Question 8. Describe the purposes for which a company can use 'Securities Premium Account.

Answer: Securities premium account can be used only for the following four purposes as laid down by Section 78 of the Companies Act 1956

- (i) To issue fully paid bonus shares to an extent not exceeding unissued share capital of the company.
- (ii) To write-off preliminary expenses of the company.
- (iii) To write-off the expenses of, or commission paid, or discount allowed on any of the shares or debentures of the company.
- (iv) To pay premium on the redemption of preference shares or debentures of the company.

Question 9. State clearly the conditions under which a company can issue shares at a discount.

Answer: In normal condition as a general rule, a company cannot ordinarily issue shares at a discount. It can do so only in cases such as 'reissue of forfeited shares' and in accordance with the provisions of Section 79 of the Companies Act. According to Section 79 of the Companies Act, 1932, a company is permitted to issue shares, at a discount provided the following conditions are satisfied

- (i) The issue of shares at a discount is authorised by an ordinary resolution passed by the company at its general meeting and sanctioned by the Company Law Board now Central Government.
- (ii) The resolution must specify the maximum rate of discount at which the shares are to be issued but the rate of discount must not exceed 10 per cent of the nominal value of shares. The rate of discount can be more than 10 per cent if the government is convinced that a higher rate is called-for under special circumstances of a case.
- (iii) At least one year must have elapsed since the date on which the company became entitled to commence the business.
- (iv) The shares are of a class which has already been issued. •
- (v) The shares issued within two months from the date of receiving sanction for the same from the government or within such extended period as the government may allow.
- (vi) If the offer prospectus at the date of issue must mention particulars of the discount allowed on the issue of shares.

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