

Accounting treatment of Share application money

The correct accounting treatment in respect of share application money is analyzed as below:

- Section 211 of the Companies Act, 1956 provides that the balance-sheet of a company shall give a true and fair view of the state of affairs of the company and shall be in the form (either horizontal or vertical) as set out in Part I of Schedule VI.
- The broad heads under “Liabilities” therein are (i) Share Capital, (ii) Reserves and Surplus, (iii) Secured Loans, (iv) Unsecured Loans and (v) Current Liabilities and Provisions. The item of ‘share application money’ does not appear in the sub-heads under any of these heads.
- Any subscription received by a company against issue of share capital can be regarded as “subscribed share capital” only when the share capital is actually subscribed and allotted as well. Until the allotment is made, any subscription cannot be included in the amount of subscribed share capital. [ICAI Compendium of Opinions, Vol. XII, pp. 121 to 123]. Share application money, therefore, cannot be treated as ‘Share Capital’.
- Share application money only in respect of invalid or revoked applications and excess application money received due to over-subscription, however, may be treated as “Current Liabilities”. The instant case does not satisfy any of the above, hence cannot be treated as “Current Liabilities” Share application money, therefore, can neither be categorized as “Share Capital’ nor “Current Liabilities”.
- The ICAI Compendium of Opinions, [Vol. XV, (1996 Edn.) pp. 34 to 36], opines that the “share application money pending allotment” should be shown in the balance-sheet under a separate heading between “Share Capital” and “Reserves and Surplus”.
- Share application money is also not an instrument, much less an Equity linked instrument.