Nexia SAB&T
Training and Technical

Treatment of share premium in the Financial Statements

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The Companies Act 71 of 2008 no longer permits companies to have shares of par value, resulting in companies no longer recognizing share premiums. In this issue we look at what this means for existing share premium accounts.

One of the most fundamental changes that the new Companies Act No. 71 of 2008 brought about was that a pre-existing company may not authorize any new par value shares, authorize any shares having a nominal value, or do any subdivision thereof.

In light of this, questions have often been asked about the treatment of the existing share premium account already present in the financial statements and what the legalities surrounding this is. In order to answer this, it will be necessary to fully understand what the share premium account is and explore the alternative treatments which are allowed in respect of this.

Note: The requirements relating to the issuing of shares are relevant to all shares which have been issued since the implementation of the new Companies Act No. 71 of 2008.

The effect of this is that share premiums can no longer be recognised by the company.

1. What is a share premium?

A share premium is the amount received by a company over and above the par value of its shares. This amount typically forms a part of the non-distributable reserves of the firm.

2. What is the implication of the new Companies Act No. 71 of 2008 in relation to share premium?

The effect of The Companies Act No 71 of 2008 is that a share premium will no longer be applicable. The new Companies Act was signed into law on 8 April 2009 and became effective on 1 May 2011. Consequently, any company with an existing share premium account would not recognize increases in such an account for all future years.

3. A company has issued shares that have a par value and it has recognized share premium separately from share capital.

The issues are:

i. Whether IFRS permits reclassifications within equity, for example combining share capital and share premium into one line termed "stated capital / issued capital"?

The legal requirements relating to the different categories of equity capital affect the accounting classifications. Therefore, from an IFRS perspective, if there is no legal requirement to retain separate classifications for share capital and share premium within equity, these could be combined. Such a reclassification would be recognized within the statement of changes in equity. This would also be the case in the South African context.

ii. The accounting impact of a repayment of shares

If the share premium is paid out to shareholders (for example, where the Company's Memorandum of Incorporation specifies that the shareholders are entitled to the share premium), this is accounted for as a distribution of shareholders equity for IFRS purposes.

4. Does the company HAVE to reclassify the share premium account back to equity, or can it maintain a separate share premium account?

As there is no legal requirement for the company to reclassify the share premium account, a separate share premium account may be maintained.

Where a company has maintained a separate share premium account, due consideration should be given to any movements on such accounts.