

FORFEITURE AND RE-ISSUE OF SHARE

Definition of forfeiture of share: - When shareholders fails to pay allotment or installment money on shares allotted to him the company has authority to forfeit share of the defaulters, this is called forfeitures of shares. In case of forfeitures of share the amount already paid by defaulting shareholder is forfeited by the company.

Forfeited share Account: - When shares of shareholder are forfeited share capital account of such shareholder is closed and the amount already received on such shares is to be transferred into a newly opened account which is called forfeited share account.

- The company will have to follow the procedure specified in its articles of association.

Effects of forfeiture of shares:-

- Name of the defaulting shareholder is removed from the register of members. So he now ceases to be the members of the company.
- Forfeiture of share results in the reduction of share.
- Defaulting shareholder loses all his rights in the company.
- The amount already paid by forfeited shareholder is seized.
- Forfeited amount of the defaulter shareholder is transferred to the separate account called forfeited share account and is shown in the liabilities side of B/S.

Procedure of forfeiture of shares:-

- Generally AOA lay down the procedures to be followed at the time of forfeiture.
- A clear 14 days notice must be given to the defaulting shareholder.
- The notice should clearly state that in case of default by the shareholder the shares would be forfeited by the company.
- A resolution for forfeiture of shares must be passed by BOD.

Accounting Treatment on forfeitures of shares:-

- When shares issued at Par and forfeited due to nonpayment of installment money**

Share capital A/C Dr

To calls in arrear A/C

To forfeiture shares A/C (with the amount already received)

(Being shares forfeited)

Or

Share capital A/C Dr

To Share Allotment a/c

To share call a/c

To forfeiture shares A/C (with the amount already received)

(Being shares forfeited)

➤ **ASSIGNMENT NO 1:-**

A Ltd has issued 20,000 shares @ Rs 20 each. The amount was payable as under:

On application = Rs 4

On allotment = Rs 8

On 1st / final call = Rs 8

Assuming that all the application money were duly subscribed and payment made except a shareholder having 1500 share did not pay allotment money and another shareholder having 1000 share could not pay allotment and call money .The board of directors decided to forfeit these shares Pass the necessary journal entry in the books of company.

ASSIGNMENT NO 2

A company forfeited 1000 equity shares of Rs.10 each issued at par for non-payment of final call of Rs.5. Show the journal entry to be passed for forfeiture of shares.

ASSIGNMENT NO 3

A company forfeited 2000 shares of Rs.20 each issued at par for non-payment of first call of Rs.5per share. The final call of Rs 4 per share was yet to be made. Show the journal entry to be passed for forfeiture of shares

b. **When shares issued at Discount and forfeited due to nonpayment of installment money**

Share capital A/CDr

To calls in arrears A/C.

To discount on issue of shares

To share forfeiture A/C

(Being shares forfeited)

Or

Share capital A/CDr

To Share Allotment a/c

To share call a/c

To discount on issue of shares

To share forfeiture A/C

(Being shares forfeited)

c. **When shares issued at Premium and forfeited due to nonpayment of installment money**

If the share issue at premium and forfeited of share due to nonpayment of allotment money or call money then accounting treatment are divided into two categories.

Case 1:- When security premium amount is not received at the time of forfeiture of the share- If the shares were issue at premium and the security premium amount was not received at the time of forfeiture of the share then security premium account should be cancelled from company books of account therefore security premium reserve account must have been credited. For cancellation of such amount by debited with forfeiture transaction

➤ **When share premium is not received at the time of forfeiture of share**

Share capital A/CDr

Security premium a/c.....Dr

To calls in arrears A/C.

To share forfeiture A/C

(Being shares forfeited)

Or

Share capital A/CDr

Security premium a/c.....Dr

To Share Allotment a/c

To share call a/c

To share forfeiture A/C

(Being shares forfeited)

ASSIGNMENT NO 4

X Ltd has issued 30,000 shares @ Rs 20 each at Rs 25 The amount was payable as under:

On application = Rs 5

On allotment = Rs 12(including premium)

On 1st / final call = Rs 8

Assuming that all the application money were duly subscribed and payment made except a shareholder having 1000 share could not pay allotment and call money .The board of directors decided to forfeit these shares Pass the necessary journal entry in the books of company.

Case 2:- When security premium amount has been already received at the time forfeiture of share- If the shares were originally issued at premium and

security premium amount has been already received then share forfeiture account adjustment is not require in the books of company. Therefore accounting treatment of forfeiture would be on the same pattern as in case of share issue at par. Security premium reserve account is not cancelled. The amount of premium will remain in security premium account.

- **When share premium amount has been already received at the time of forfeiture of share.**

Share capital A/C Dr
 To calls in arrear A/C
 To forfeiture shares A/C (with the amount already received)
(Being shares forfeited)

Or

Share capital A/C Dr
 To Share Allotment a/c
 To share call a/c
 To forfeiture shares A/C (with the amount already received)
(Being shares forfeited)

ASSIGNMENT NO 5

X Ltd has issued 30,000 shares @ Rs 20 each at Rs 25 The amount was payable as under:

- On application = Rs 5
- On allotment = Rs 12(including premium)
- On 1st / final call = Rs 8

Assuming that all the application money were duly subscribed and payment made except a shareholder having 1000 share could not pay call money .The board of directors decided to forfeit these shares Pass the necessary journal entry in the books of company.

REISSUE OF FORFEITED SHARES:-

Forfeited shares may be reissued to the public subject to the terms and conditions in the AOA relating to the same. Forfeited shares may be reissued at Par, Premium or discount.

Rules regarding reissue of forfeited shares:

- i. Forfeited shares may be issued at Par, Premium or Discount.
- ii. The discount allowed on the reissue of forfeited share must not exceed the amount previously received on these shares.
- iii. The discount allowed by the company on reissue of forfeited share is debited to share forfeited account.
- iv. After reissue of forfeited share, the amount left in the share forfeiture A/C is a capital profit hence it will be transferred in to capital reserve A/C.

Accounting Treatment:-

Accounting of reissue of forfeited shares are divided in to two parts

Case 1 when fully reissued of forfeited shares

Case 2 When Partially Reissued of Forfeited Shares

- i. **(a) When Forfeited shares re- issued at Par.**
Bank A/C Dr
 To share capital A/C
(Being issue of forfeited shares)

(b) When balance of Forfeited share account transfer in to Capital Reserve account
Forfeited Share A/cDr
 To Capital Reserve A/c
(Being balance amount transfer in to capital reserve account)
- ii. **(a) When Forfeited shares re- issued at premium**
Bank A/C Dr
 To share capital A/C
 To sec premium A/C
(Being issue of forfeited shares)

(b) When balance of Forfeited share account transfer in to Capital Reserve account
Forfeited Share A/cDr
 To Capital Reserve A/c
(Being balance amount transfer in to capital reserve account)
- iii. **(a) When Forfeited shares re-issued at discount**
Bank A/C Dr
Forfeited share A/C Dr
 To share capital A/C
(Being issue of forfeited shares)

(b) When balance of Forfeited share account transfer in to Capital Reserve account

Forfeited Share A/cDr
To Capital Reserve A/c
(Being balance amount transfer in to capital reserve account)

AMOUNT TRANSFER TO CAPITAL RESERVE ACCOUNT

Net capital gain: - The difference between the amounts forfeited (credit) and the discount given (debit) is net capital gain.

If company has given no discount then the entire amount forfeited is net capital gain.

- i. **When all forfeited shares have to be re-issued** - In this case the credit balance left on share forfeiture A/C is transferred to capital reserve A/C.
- ii. **When partial reissue of forfeited shares** - In this case only the part of the forfeited shares have been reissued only the proportional gain or profit will be transferred to capital reserve A/C.

$$\text{Amount Transfer to capital Reserve Account} = \frac{\text{Forfeited Amount} \times \text{No of forfeited Share Re Issued}}{\text{No of Forfeited Shares}}$$

Effect on B/S: - Capital reserve A/C appears on liabilities side of B/S under the heading "Reserve and Surplus".

Surrender of Shares: - Sometimes a shareholder feels that he cannot pay the further calls. In such a situation he may surrender his shares to the company. When shares are voluntarily surrendered by the shareholder for the cancellation is called Surrender of shares.

Circumstances in which surrender of shares may be accepted:-

- i. When shares are surrendered in exchange of new issue of the same face value.
- ii. When all circumstances of forfeiture of share have arisen possibility of surrender of shares may be searched out instead of making forfeiture of share.