Corporate Accounting Part 2

Forfeiture of shares

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Forfeiture and Reissue of shares

What is Forfeiture?

Forfeiture means the loss of a right, claim, or property as a result of failure to meet legal obligations. In accounting for share, it assumes special meaning. Forfeiture of a share means cancellation of the shares held by the defaulting member in a company.

Re-issue of Forfeited Shares

- **Forfeited shares are available with the company for sale. After the forfeiture of shares, the company is under an obligation to dispose off the forfeited shares.**

- **The company requires to pass a resolution in its Board Meeting for the re-issue of forfeited shares. Re-issue of forfeited shares is a mere sale of shares for the company. A company does not make allotment of these shares.**

- **The company auctions the forfeited shares and disposes them off. A company can re-issue these shares at any price but the total amount received on these shares should not be less than the amount in arrears on these shares. Here, total amount refers to the amount received from the original allottee and the second purchaser.**

For example, A pays the application amount of ₹3 on 100 shares of the face value ₹10. But he fails to pay the allotment money. The company forfeits his shares and re-issues them. Now, the amount in arrear is ₹7 per share. The company can re-issue the shares at ₹7 or more. Thus,

it cannot issue shares at a price less than ₹7.

Important Points:

1) **We show the Forfeited shares A/c under the heading 'Share Capital'.**
2) **When a company re-issues only a part of the forfeited shares, then it will transfer only the profit relating to this part to the capital reserve.**
3) **When a company re-issues shares at a price more than their face value, it needs to transfer the excess amount to the Securities Premium A/c.**

Accounting Treatment on Forfeiture of Shares

1) **Forfeiture of Shares Issued at Par**
2) **Forfeiture of Shares Issued at a Premium**

1. Forfeiture of Shares Issued at Par (If Calls in Arrear account open)

If the unpaid amount was transferred to Calls in Arrear Account

Date	Particulars	Debit (Rs.)	Credit (Rs.)
Date of Forfeiture	Share Capital A/c Dr.	(Amount called up per share x no. of forfeited shares)	
	To Calls in Arrear A/c		(Amount unpaid)
	To Forfeited Shares A/c		(Amount received)

Forfeiture of Shares Issued at Par (If Calls in Arrear account not open)

If the unpaid amount was not transferred to Calls in Arrear Account:

Date	Particulars	Debit (Rs.)	Credit (Rs.)
Date of Forfeiture	Share Capital A/c Dr.	(Amount called up per share x no. of forfeited shares)	
	To Respective Calls A/c		(Amount unpaid)
	To Forfeited Shares A/c		(Amount received)

2. Forfeiture of Shares Issued at a Premium

Journal entries to be passed are:

(a) In case the premium money has been received:

Date	Particulars	Debit (Rs.)	Credit (Rs.)
Date of Forfeiture	Share Capital A/c Dr.	(Amount called up...	
	To Respective Calls A/c		(Amount unpaid)
	or		
	To Calls in Arrear A/c		
	To Forfeited Shares A/c		(Amount received)

(b) In case the premium money has not been received:

Date	Particulars	Debit (Rs.)	Credit (Rs.)
Date of Forfeiture	Share Capital A/c Dr.	(Amount of capital called up.)	
	Securities Premium A/c Dr.	(Amount of Premi -um not received)	
	To Respective Calls A/c		
	or		
	To Calls - in- Arrear A/c		(Amount unpaid)
	To Forfeited Shares A/c		(Amount received)

Q. (a) If a Share of Rs. 10 on which Rs. 8 is called-up and Rs. 6 is paid is forfeited. State with what amount the Share Capital account will be debited.

(b) If a Share of Rs. 10 on which Rs. 6 has been paid is forfeited, at what minimum price it can be reissued.

(c) Allhuwalia Ltd. issued 1,000 equity shares of Rs. 100 each as fully paid-up in consideration of the purchase of plant and machinery worth Rs. 1,00,000. What entry will be recorded in company's journal.

Answer

(a) On forfeiture, share capital is debited with called up amount by 8.

(b) The total price of money collected from 1st issue and reissue should be equal to face value at least. It can exceed also. The share can be reissue for minimum Rs 4 per share.

(c) Ans

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Plant and Machinery A/c	Dr		1,00,000	
	To Vendor A/c				1,00,000
	(Being plant and machinery purchased and money due on vendor)				
(ii)	Vendor A/c	Dr		1,00,000	
	To Share Capital A/c				1,00,000
	(Being vendor paid in form of shares)				