

Re-issue of Forfeited Shares

Forfeiture of shares refers to the cancelation of shares. Sometimes, shareholders may be unable to pay the money due on allotment or calls on the due date. In this case, the company may forfeit such shares. On forfeiture, the company extinguishes the title of such shareholder. It also forfeits the money received on forfeited shares till the date of forfeiture. Consequently, the Company may opt for Reissue of Shares

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.

Journal Entries for Re-issue of Forfeited Shares:

Date	Particulars		Amount (Dr.)	Amount (Cr.)
1. On re-issue of shares	Bank A/c (Actual amount received)	Dr.	XXX	
	Forfeited Shares A/c (loss on re-issue)	Dr.	XXX	
	To Share Capital A/c	Cr.		XXX
	(Being forfeited shares re-issued @ ₹...each as per the Board's Resolution no... dated....)			
2. On transfer of profit on re- issue	Forfeited Shares A/c	Dr.	XXX	
	To Capital Reserve A/c	Cr.		XXX
	(Being profit on re-issue of the shares transferred to capital reserve)			

Calculation of profit on re-issue when different categories of shares are re-issued

The company cannot treat the credit balance in the Share Forfeiture A/c until it re-issues the forfeited shares. The reason is that the company can re-issue these shares at a discount and it will adjust this amount from the Share Forfeiture A/c. When a company re-issues different categories of shares, it will transfer the amount to Capital Reserve only in respect of the category of shares re-issued.

For example, A company forfeits 500 shares with ₹4 paid-up and 400 shares with ₹6 paid-up. Thus, the balance of Share Forfeiture A/c will be: $(500 \times ₹4) + (400 \times ₹6) = ₹4400$

Now, if company issues 400 shares with ₹6 paid-up at ₹8, the amount that it will transfer to Capital Reserve will be:

$$[(₹6 + ₹8) - ₹10] \times 400 \text{ shares} = ₹1600$$

Solved Example For You

MN Ltd. issues 100000 shares of face value of ₹10 each at a premium of ₹2 per share. The amount payable is as follows:

Application: ₹3

Allotment: ₹6 including premium

First and Final Call: balance due

The company receives a full subscription. A, a shareholder having 1000 shares fails to pay the allotment and call money until the due date of payment. Consequently, the

company forfeits his shares. Later, it re-issues these shares to B for ₹11 per share fully paid up. Pass the necessary journal entries in the books of MN Ltd.

Ans.

Journal Entries

In the books of MN Ltd.

Date	Particulars		Amount (Dr.)	Amount (Cr.)
1.	Bank A/c	Dr.	300000	
	To Share Application A/c	Cr.		300000
	(Being application money received on 100000 shares @ ₹3 per share)			
2.	Share Application A/c	Dr.	300000	
	To Share Capital A/c	Cr.		300000
	(Being share application money transferred to share capital)			

3.	Share Allotment A/c	Dr.	600000	
	To Share Capital A/c	Cr.		400000
	To Securities Premium A/c	Cr.		200000
	(Being share allotment due on 100000 shares @₹6 per share including premium)			
4.	Bank A/c	Dr.	594000	
	To Share Allotment A/c	Cr.		594000
	(Being share allotment money received on 99000 shares @₹6 each)			
5.	Share First and Final Call A/c	Dr.	300000	
	To Share Capital A/c			
		Cr.		300000
	(Being money on share call due on 100000 shares @₹3 per share)			

6.	Bank A/c	Dr.	297000
	To Share First and Final Call A/c	Cr.	297000

(Being share call amount received on 99000 shares @₹3)

7.	Share Capital A/c (1000 x ₹10)	Dr.	10000
	Securities Premium A/c (1000 x ₹2)	Dr.	2000
	To Share Allotment A/c (1000 x ₹6)	Cr.	6000
	To Share First and Final Call A/c (1000 x ₹3)	Cr.	3000
	To Forfeited Shares A/c	Cr.	3000

(Being forfeiture of 1000 shares for non-payment of allotment and call money as per the Board's Resolution No....dated.....)

8.	Bank A/c (1000 x ₹11)	Dr.	11000	
	To Share Capital A/c	Cr.		10000
	To Securities Premium A/c	Cr.		1000
	(Being 1000 forfeited shares re-issued @ ₹11 each as per the Board's Resolution no... dated....)			

9.	Forfeited Shares A/c	Dr.	3000	
	To Capital Reserve A/c	Cr.		3000
	(Being profit on re-issue of the shares transferred to capital reserve)			