

Forfeiture of Shares

Forfeiture of shares is a mechanism used by companies to deal with shareholders who fail to pay the due amount on their shares within the specified period. This process results in the cancellation of the defaulting shareholder's shares, and the already paid amount is retained by the company.

Here's a detailed explanation of the forfeiture process, along with the accounting entries involved:

Conditions for Forfeiture of Shares:

- **Articles of Association:** Forfeiture can only occur if it is permitted by the Articles of Association of the company. If the Articles do not contain any specific rules, the provisions of Table F of Schedule I of the Companies Act, 2013, apply.
- **Notice Period:** The defaulting shareholder must be given a minimum of 14 days' notice to pay the unpaid amount along with any accrued interest.
- **Notice Content:** The notice must state that if the unpaid amount is not paid within the specified period, the shares will be forfeited.
- **Board Resolution:** If the shareholder fails to pay within the notice period, the shares can be forfeited by a resolution of the Board of Directors.
- **Removal from Register:** After forfeiture, the shareholder's name is removed from the Register of Members.

Accounting Entries for Forfeiture of Shares

1. Forfeiture of Shares Issued at Par

When shares issued at par are forfeited due to non-payment, the journal entry involves debiting the Share Capital account and crediting the relevant unpaid call accounts and the Share Forfeiture account.

Example:

A company issues 1,000 shares at ₹10 each, and the following payments have been called:

- Application: ₹3
- Allotment: ₹3
- First Call: ₹2
- Second Call: ₹2

Assume a shareholder holding 100 shares fails to pay the first and second calls.



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Journal Entry:

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Share Capital A/c                Dr. ₹1,000 (₹10 * 100 shares)
  To Share First Call A/c        ₹200 (₹2 * 100 shares)
  To Share Second Call A/c       ₹200 (₹2 * 100 shares)
  To Share Forfeiture A/c        ₹600 (₹6 * 100 shares already paid)
```

2. Forfeiture of Shares Issued at a Premium

When shares issued at a premium are forfeited, and the premium has been received, the journal entry is similar to the above. If the premium has not been fully received, the Securities Premium account is also involved.

Example:

A company issues 1,000 shares at ₹10 each with a premium of ₹2 per share. The following payments have been called:

- Application: ₹3
- Allotment: ₹5 (including ₹2 premium)
- First Call: ₹2
- Second Call: ₹2
- Assume a shareholder holding 100 shares fails to pay the first and second calls.

Journal Entry:

Journal Entry:

```
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Share Capital A/c                Dr. ₹1,000 (₹10 * 100 shares)
Securities Premium A/c          Dr. ₹200 (₹2 * 100 shares)
  To Share Allotment A/c         ₹300 (₹3 * 100 shares)
  To Share First Call A/c       ₹200 (₹2 * 100 shares)
  To Share Second Call A/c      ₹200 (₹2 * 100 shares)
  To Share Forfeiture A/c       ₹500 (₹5 * 100 shares already paid)
```

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Explanation of the Accounts Involved

- Share Capital Account: Debited to reduce the company's capital for the amount called up on the forfeited shares.
- Unpaid Call Accounts (Share Allotment A/c, Share Call A/c): Credited to cancel the debit balance previously recorded when the calls were made.
- Share Forfeiture Account: Credited with the amount already paid by the defaulting shareholder. This account represents the amount forfeited by the company.
- Securities Premium Account: Debited if the shares were issued at a premium and the premium amount has not been fully received.

Key Points

- The forfeiture of shares must comply with the company's Articles of Association.
- Proper notice must be given to the defaulting shareholder.
- The shareholder's name is removed from the Register of Members post-forfeiture.
- The amount already paid by the shareholder is retained by the company and recorded in the Share Forfeiture Account.

Solved Examples

Ques 1: Forfeiture and Reissue of Shares Issued at a Premium

A company issued 1,000 shares at ₹10 each with a premium of ₹2 per share. The payment schedule was:

- Application: ₹3 (including ₹1 premium)
- Allotment: ₹5 (including ₹1 premium)
- First Call: ₹2
- Second Call: ₹2

Mr. X, who holds 100 shares, failed to pay the first and second calls. His shares were forfeited. Later, the forfeited shares were reissued at ₹9 per share.

Required:

- Journal entries for the forfeiture of Mr. X's shares.
- Journal entries for the reissue of the forfeited shares.



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Solution:

Forfeiture:

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Share Capital A/c	Dr. ₹1,000 (₹10 * 100 shares)
Securities Premium A/c	Dr. ₹100 (₹1 * 100 shares not received)
To Share First Call A/c	₹200 (₹2 * 100 shares)
To Share Second Call A/c	₹200 (₹2 * 100 shares)
To Share Forfeiture A/c	₹700 (₹6 + ₹1 premium already received)

Reissue:

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Bank A/c	Dr. ₹900 (₹9 * 100 shares)
Share Forfeiture A/c	Dr. ₹100
To Share Capital A/c	₹1,000 (₹10 * 100 shares)

Transfer of Balance in Share Forfeiture Account:

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Share Forfeiture A/c	Dr. ₹600 (balance forfeited amount)
To Capital Reserve A/c	₹600

Ques 2: Forfeiture of Shares Issued at Par and Reissue at a Discount

A company issued 500 shares of ₹10 each. The payment schedule was:

- Application: ₹4
- Allotment: ₹4
- First Call: ₹2

Mr. Y, who holds 50 shares, failed to pay the first call. His shares were forfeited. Later, the forfeited shares were reissued at ₹9 per share.

Required:

- Journal entries for the forfeiture of Mr. Y's shares.
- Journal entries for the reissue of the forfeited shares.

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Solution:

Forfeiture:

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Share Capital A/c	Dr. ₹500 (₹10 * 50 shares)
To Share First Call A/c	₹100 (₹2 * 50 shares)
To Share Forfeiture A/c	₹400 (₹8 * 50 shares already received)

Reissue:

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Bank A/c	Dr. ₹450 (₹9 * 50 shares)
Share Forfeiture A/c	Dr. ₹50 (discount given)
To Share Capital A/c	₹500 (₹10 * 50 shares)

Transfer of Balance in Share Forfeiture Account:

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Share Forfeiture A/c	Dr. ₹350 (balance forfeited amount)
To Capital Reserve A/c	₹350

Question 3: Forfeiture Due to Non-Payment of Allotment and First Call
A company issued 2,000 shares of ₹10 each. The payment schedule was:

- Application: ₹2
- Allotment: ₹4
- First Call: ₹2
- Second Call: ₹2

Mr. Z, who holds 200 shares, failed to pay the allotment and first call money. His shares were forfeited.

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Required:
Journal entries for the forfeiture of Mr. Z's shares.

Forfeiture:

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Share Capital A/c	Dr. ₹2,000 (₹10 * 200 shares)	
To Share Allotment A/c	₹800 (₹4 * 200 shares)	
To Share First Call A/c	₹400 (₹2 * 200 shares)	
To Share Forfeiture A/c	₹800 (₹2 application money already received)	

Question 4: Issue of Shares at Premium, Forfeiture, and Reissue

A company issued 1,500 shares at ₹10 each with a premium of ₹2 per share. The payment schedule was:

- Application: ₹3 (including ₹1 premium)
- Allotment: ₹5 (including ₹1 premium)
- First Call: ₹2
- Second Call: ₹2

Mr. A, who holds 150 shares, failed to pay the first and second calls. His shares were forfeited and later reissued at ₹11 per share.

Required:

- Journal entries for the forfeiture of Mr. A's shares.
- Journal entries for the reissue of the forfeited shares.

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Forfeiture:

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Share Capital A/c	Dr. ₹1,500 (₹10 * 150 shares)
Securities Premium A/c	Dr. ₹150 (₹1 * 150 shares not received)
To Share First Call A/c	₹300 (₹2 * 150 shares)
To Share Second Call A/c	₹300 (₹2 * 150 shares)
To Share Forfeiture A/c	₹1,050 (₹6 + ₹1 premium already received)

Reissue:

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Bank A/c	Dr. ₹1,650 (₹11 * 150 shares)
To Share Capital A/c	₹1,500 (₹10 * 150 shares)
To Securities Premium A/c	₹150 (premium on reissue)

Transfer of Balance in Share Forfeiture Account:

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Share Forfeiture A/c	Dr. ₹1,050 (balance forfeited amount)
To Capital Reserve A/c	₹1,050

Assignment

Ques 1: Over-Subscription and Pro-Rata Allotment

ABC Ltd. invited applications for 2,000 shares of ₹10 each payable as follows:

- ₹3 on Application
- ₹4 on Allotment
- ₹3 on First and Final Call

The company received applications for 3,000 shares and made the allotment on a pro-rata basis. All moneys were duly received.

Required:

Journal entries for the application, allotment, and first and final call.

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Ques 2: Forfeiture and Reissue at Discount

XYZ Ltd. issued 2,500 shares at ₹10 each. The payment schedule was:

- ₹2 on Application
- ₹3 on Allotment
- ₹3 on First Call
- ₹2 on Second Call

Mr. B, who holds 200 shares, failed to pay the first and second calls. His shares were forfeited and later reissued at ₹8 per share.

Required:

- Journal entries for the forfeiture of Mr. B's shares.
- Journal entries for the reissue of the forfeited shares.

Ques 3: Forfeiture Due to Non-Payment of Allotment and First Call, Reissue at Premium

LMN Ltd. issued 1,800 shares at ₹10 each with a premium of ₹2 per share. The payment schedule was:

- ₹3 on Application (including ₹1 premium)
- ₹5 on Allotment (including ₹1 premium)
- ₹2 on First Call
- ₹2 on Second Call

Mr. C, who holds 150 shares, failed to pay the allotment and first call money. His shares were forfeited and later reissued at ₹12 per share (including a premium of ₹2).

Required:

- Journal entries for the forfeiture of Mr. C's shares.
- Journal entries for the reissue of the forfeited shares.

Ques 4: Issue of Shares at Par, Forfeiture, and Reissue

DEF Ltd. issued 1,000 shares at ₹10 each. The payment schedule was:

- ₹3 on Application
- ₹3 on Allotment
- ₹2 on First Call
- ₹2 on Second Call

Mr. D, who holds 100 shares, failed to pay the first and second calls. His shares were forfeited and later reissued at ₹9 per share.

Required:

- Journal entries for the forfeiture of Mr. D's shares.



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- Journal entries for the reissue of the forfeited shares.

Ques 5: Shares Issued at a Discount, Forfeiture, and Reissue at Par
PQR Ltd. issued 2,000 shares of ₹10 each at a discount of 10%. The payment schedule was:

- ₹2 on Application
- ₹3 on Allotment
- ₹2 on First Call
- ₹2 on Second Call

Mr. E, who holds 200 shares, failed to pay the first and second calls. His shares were forfeited and later reissued at ₹10 per share.

Required:

- Journal entries for the forfeiture of Mr. E's shares.
- Journal entries for the reissue of the forfeited shares.

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