Oversubscription and Undersubscription of Shares and Forfeiture of Shares

Both oversubscription and undersubscription are concepts related to the issue of shares by a company. They describe the response from investors to the company's offer of shares.

1. Oversubscription

Definition:

- Oversubscription occurs when the number of shares applied for by investors exceeds the number of shares offered by the company.
- This situation arises when there is high demand for the company's shares due to its reputation, market potential, or other favorable conditions.

Example:

- A company offers 1,00,000 shares to the public.
- Applications are received for 1,50,000 shares.
- The issue is oversubscribed by 50,000 shares.

Handling Oversubscription:

1. Full Allotment to Some Applicants:
- Certain applicants receive the full number of shares they applied for.

2. Pro-Rata Allotment:
- Shares are allotted proportionally to all applicants.
- Example: If an applicant applies for 100 shares and the pro-rata ratio is 2:3, they will receive 66 shares.

3. Partial or Rejection of Applications:
- Some applications may be partially fulfilled, or excess applications may be rejected.

2. Undersubscription

Definition:

- Undersubscription occurs when the number of shares applied for by investors is less than the number of shares offered by the company.
- This situation arises when there is low demand for the company's shares, possibly due to lack of trust in the company, unfavorable market conditions, or a high issue price.

Example:

- A company offers 1,00,000 shares to the public.
- Applications are received for only 70,000 shares.
- The issue is undersubscribed by 30,000 shares.

Handling Undersubscription:

1. Issue May Proceed:
- If the applications received meet the minimum subscription (e.g., 90% of the offer), the issue can proceed.

2. Refund to Applicants:
- If the company fails to receive the minimum subscription, it must refund all application money to the applicants.

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.

What is Forfeiture of Shares?
Cancellation of shares of a shareholder who fails to pay the amount due on allotment or on any call within the specific time period is known as Forfeiture of Shares.

Once the shares are forfeited, the name of the shareholders is removed from the Registrar of Members. Also, the amount already paid by the defaulter shareholder remains with the company.

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.

Types of Forfeiture of Shares

Forfeiture of shares can vary based on the circumstances under which the shares were issued and the shareholder's payment status. Here are the common types of forfeiture:

1. **Forfeiture of Shares Issued at Par (detail in syllabus)**

Definition: The shares are issued at their nominal (face) value, and forfeiture occurs due to non-payment of any installment (e.g., application, allotment, or call money).

Example: A share with a face value of ₹10 is issued at ₹10. If the shareholder pays ₹3 (application money) and defaults on the remaining ₹7, the company can forfeit the shares.

2. Forfeiture of Shares Issued at Premium (only meaning in syllabus)

Definition: The shares are issued at a price above their nominal value (premium). Forfeiture occurs when the shareholder defaults on payment.

Key Points:

• The premium amount may be payable along with the application money, allotment money, or call money.
• If the shareholder fails to pay the premium, the forfeiture will include the unpaid premium.

Example:

• Face Value: ₹10
• Issue Price: ₹15 (₹10 nominal value + ₹5 premium)
• If a shareholder pays ₹3 (application money, including ₹1 premium) but defaults on the remaining amount, the shares can be forfeited.

Journal Entry for Forfeiture (Premium Received):

Share Capital A/c Dr. ₹10,000
To Share Allotment A/c ₹5,000
To Share Call A/c ₹3,000
To Forfeited Shares A/c ₹2,000

If Premium is Not Received:

Share Capital A/c Dr. ₹10,000
Securities Premium A/c Dr. ₹5,000
To Share Allotment A/c ₹7,000
To Share Call A/c ₹3,000
To Forfeited Shares A/c ₹5,000

3. Forfeiture of Shares Issued at Discount (only meaning in syllabus)

Definition: The shares are issued below their nominal value (at a discount). Forfeiture occurs when the shareholder fails to pay any installment.

Key Points:

- The discount is an expense to the company and is accounted for at the time of issuance.
- Upon forfeiture, the shareholder loses ownership, but the discount allowed is not reversed.

Example:

- Face Value: ₹10
- Issue Price: ₹9 (₹1 discount)
- If the shareholder pays ₹4 but defaults on the remaining ₹5, forfeiture occurs.

Journal Entry for Forfeiture:

Share Capital A/c Dr. ₹10,000
To Discount on Issue A/c ₹1,000
To Share Allotment A/c ₹5,000
To Forfeited Shares A/c ₹4,000

4. Forfeiture Due to Non-Payment of Calls (only meaning in syllabus)

Definition: Forfeiture occurs specifically because the shareholder fails to pay call money (either first call or final call).

Key Points:

- The forfeiture is limited to the unpaid call money.
- Any money already paid by the shareholder is retained by the company.

Example:

- A share with a face value of ₹10 requires ₹3 (application money), ₹4 (allotment money), and ₹3 (call money).
- If the shareholder pays ₹7 (application + allotment) but defaults on the call money, the forfeiture is based on the unpaid call.

Forfeiture of Shares Issued at Par:

Forfeiture of shares occurs when a shareholder fails to pay the allotment money or call money due on their shares. As a result, the company cancels or forfeits the shares, and the shareholder loses their ownership rights in the company.

When shares are issued at par, it means they are issued at their face value (nominal value). For example, if the face value of a share is ₹10, the issue price is also ₹10.

Journal Entries on Forfeiture of Shares issued at Par:

When the shares of defaulter shareholders are forfeited, the amount of share capital is reduced so their capital account will be debited by the amount already called so far on the forfeited shares. Amount of unpaid calls and/or allotment will be credited along with the amount already paid by the defaulting shareholder (which is credited to Share Forfeiture Account).

Date	Particulars		LF	Amount(Dr.)	Amount(Cr.)
	Share Capital A/c	Dr.		XXXX	
	To Share Allotment A/c				XXXX
	To Calls in Arrear A/c				XXXX
	To Share Forfeiture A/c				XXXX
	(Being shares forfeited issued at par)				

Disclosure: The balance of the Forfeited Shares Account is shown in Notes to Accounts under 'Share Capital' of the Balance Sheet till the forfeited shares are reissued.

Solved Example

Ques: Toyota Limited issued 10,000 equity shares of 100 each payable as follows: Rs. 20 on application, Rs. 30 on allotment, Rs. 20 on first call and Rs. 30 on second and final calls 10,000 shares were applied for and allotted. All money due was received with the exception of both calls on 300 shares held by Supriya. These shares were forfeited. Give necessary journal entries

Solution:

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Date not specified	**Bank A/c**		2,00,000	
	To Share Application A/c			2,00,000
	(Being application money received for 10,000 shares @ ₹20 per share)			
Date not specified	**Share Application A/c**		2,00,000	
	To Share Capital A/c			2,00,000
	(Being application money transferred to share capital)			
Date not specified	**Share Allotment A/c**		3,00,000	
	To Share Capital A/c			3,00,000
	(Being allotment money due for 10,000 shares @ ₹30 per share)			
Date not specified	**Bank A/c**		3,00,000	
	To Share Allotment A/c			3,00,000
	(Being allotment money received for 10,000 shares)			
Date not specified	**Share First Call A/c**		2,00,000	
	To Share Capital A/c			2,00,000

	(Being first call money due for 10,000 shares @ ₹20 per share)			
Date not specified	**Bank A/c**		1,94,000	
	To Share First Call A/c			1,94,000
	(Being first call money received for 9,700 shares)			
Date not specified	**Share Second and Final Call A/c**		3,00,000	
	To Share Capital A/c			3,00,000
	(Being second and final call money due for 10,000 shares @ ₹30 per share)			
Date not specified	**Bank A/c**		2,91,000	
	To Share Second and Final Call A/c			2,91,000
	(Being second and final call money received for 9,700 shares)			
Date not specified	**Share Capital A/c**		30,000	
	To Share First Call A/c			6,000
	To Share Second and Final Call A/c			9,000
	To Forfeited Shares A/c			15,000
	(Being 300 shares forfeited due to non-payment of first and second calls)			

Assignment

Ques 1: **Tata Ltd.** issued 8,000 equity shares of ₹50 each payable as follows:

₹10 on application
₹20 on allotment
₹10 on first call
₹10 on second and final call
Applications were received for all 8,000 shares, and they were duly allotted. All money was received except for the allotment and both calls on 500 shares held by Rahul. These shares were subsequently forfeited.

Required: Pass the necessary journal entries for the transactions.

Ques 2: **Reliance Ltd.** issued 5,000 preference shares of ₹200 each payable as follows:

₹40 on application
₹80 on allotment
₹40 on first call
₹40 on second and final call
Applications were received for all 5,000 shares, and they were duly allotted. All money was received except for the first call and second call on 200 shares held by Ananya. These shares were later forfeited.

Required: Pass the necessary journal entries for the transactions.