

FORFEITURE OF SHARES

28.1 INTRODUCTION

By now, you have become familiar with the issue of shares by a Joint Stock Company. Generally, the nominal or face value of shares is payable on instalment basis — on application, on allotment and on calls made by the directors. Sometimes, the shareholders fail to pay the called up amount in full. In such a case, either the company can go to the court and file a suit against the defaulters for recovery of the unpaid amount or can cancel the membership of defaulting shareholders. As a result of this cancellation, the amount paid by defaulting members is forfeited and this action of company is known as 'Forfeiture of Shares'.

In this lesson, you will learn the meaning, procedure and accounting treatment of forfeiture of shares.

28.2 OBJECTIVES

After studying this lesson, you will be able to:

- explain the situations in which shares can be forfeited;
- explain Accounting treatment for forfeiture of shares issued at par, discount and premium (through Journal and Accounting vouchers);
- prepare relevant Accounts.

28.3 MEANING AND LEGAL PROVISIONS

If a shareholder fails to pay the amount of allotment or any call on shares issued by the company, the directors may decide to cancel his membership. With the

cancellation, the defaulting shareholder also loses the amount paid by him on such shares. Thus, when a shareholder is deprived of his membership due to non-payment of calls, it is known as 'forfeiture of shares'. Such an action of the company will result in reduction of capital. In short, forfeiture of shares means:

- cancellation of membership
- reduction of share capital

Let us take an example to make it more clear:

Kohima and Alfa company Ltd issued 1,00,000 shares of Rs.10 each payable as Rs.2 on application, Rs.2 on allotment, Rs.3 on first call and Rs.3 on second & final call. Mr. Hemant, the allottee of 100 shares, fails to pay the final call money made by the company. In this case if the directors decide to forfeit his 100 shares, his membership will be cancelled and amount paid by him Rs.800 (on 100 shares Rs.2 on application, Rs. 3 on allotment & R. 3 on first call money per share) will be forfeited. Now, Mr. Hemant will no longer be the member of the company.

Legal Provisions

The power to forfeit shares is given in Articles of Association of the companies. Forfeiture of shares takes place for non payment of allotment money or calls due to the company. The Board of directors have to give at least 14 days notice to the defaulting members, calling upon them to pay the outstanding amount with or without interest as the case may be, before a certain specified date. The notice must also state that if the shareholders fail to remit the amount mentioned therein, their shares will be forfeited. If they still fail to pay the amount within the specified period of time, the Directors of the company may forfeit the defaulting shares by passing a resolution. The decision of the Board of Directors regarding the forfeiture of shares should be communicated to the concerned allottees of shares and should be requested to return the allotment letters of the forfeited shares.

INTEXT QUESTIONS 28.1

Fill in the blanks with appropriate word/words.

- i) If a shareholder fails to pay the unpaid amount on shares, the directors may decide to shares.
- ii) Forfeiture of shares means
 - a)
 - b)

-) The power to forfeit shares is given by Company's
-) The Board of Directors have to give at least 14 days notice to members.

8.4 ACCOUNTING TREATMENT

Shares can be issued at par, premium or at discount. Accounting treatment for forfeiture of shares can be explained as:

Case 1 — Forfeiture of shares issued at Par

Shares are forfeited on the basis of the resolution passed in the meeting of the directors. The resolution will form the supporting voucher for recording the forfeiture of shares in the books of accounts. The procedure is:

-) Debit Share Capital A/c with amount arrived at by multiplying the number of shares forfeited by amount called up (whether received or not) per share upto the time of forfeiture. This account is debited to show the effect of forfeiture on share capital.
-) Credit 'Share Forfeited A/c' with the amount received upto the time of forfeiture. The amount forfeited is a gain, so this is credited to 'Share forfeited A/c'.
-) Credit 'Unpaid Calls A/c' with the amount due on forfeited shares. This is done to cancel the effect of debits to such calls which take place when the amount is made due.

When shares are forfeited the company makes the following Journal entry:

Share Capital A/c	Dr.	(with called up amount)
		To Share forfeited A/c (with amount already paid by members)
		To Unpaid calls A/c (with the amount which became due but not yet paid)

For example, if a shareholder pays application money of Rs.2 per share and fails to pay allotment money of Rs.3 and first call money of Rs.2 per share on a share of Rs.10 each (face value) then the following journal entry will be made:

Share Capital A/c	Dr.	7
		To share Allotment A/c 3
		To Share Forfeited A/c 3
		To Share 1st Call A/c 2

The following transfer voucher is prepared :

Company's Name		Dated.....
Voucher No.....		Amount Rs.
Debit	Share Capital A/c	7
		7
Credit	Share Forfeited A/c (with the amount received on forfeited shares paid on)	2
	Share Allotment A/c	3
	Share Calls A/c	2
		7
Sd/- Manager		Sd/- Accountant

Illustration - 1

On 1st July 1997 Harsha Ltd issued 1,00,000 shares of Rs. 10 each payable as follows:

Rs.2.50 on application, Rs.2.50 on allotment, Rs.2 on first call and Rs.3 on second & final call. 90,000 shares were applied for and allotted. All the payments were received with the exception of allotment money, first call and second call money on 3,000 shares held by Hemlata of Agra. After fulfilling all the formalities, the Board of Directors passed resolution and decided to forfeit the shares held by the defaulter. Pass journal entries and prepare relevant accounting vouchers to record transactions relating to forfeiture of shares.

Solution

Journal Entries

Share Capital A/c	Dr.	30,000
(3,000 × 10)		
To Share forfeited A/c		7,500
(3,000 × 2.50)		
To Share Allotment A/c		7,500
(3,000 × 2.50)		
To Share 1st Call A/c		6,000
(3,000 × 2)		
To Share Second & Final Call A/c		9,000
(3000 × 3)		

(Being 3000 shares forfeited due to the non payment of Rs.2.50 on allotment, Rs.2 on first call & Rs.3 on second and final call per share).

The following Accounting Voucher will be prepared :

HARSHA LTD.		Date.....
Voucher No.....		Amount Rs
Debit :	Share Capital A/c (3,000 × 10)	30,000
		30,000
Credit :	Share Allotment A/c (3000 × 2.50) Rs. 7,500 Share First Call A/c (3000 × 2) Rs. 6,000 Share Second Call A/c (3000 × 3) Rs. 9,000 Share Forfeited A/c 7,500 with the amount received on 3,000 shares @ Rs.2.50 each (Being 3,000 shares forfeited due to non- payment of allotment, first call and second call.)	30,000
		30,000
Sd/- Manager		Sd/- Accountant

As it is a transfer voucher, it will be recorded on both sides of the Day Book as follows:

Receipts		DAY BOOK				Payments			
Date	V. No.	Particulars	F Amount Rs.	Transfer Rs.	Date	V No.	Particulars	F Amount Rs.	Transfer Rs.
		To Share allotment A/c		7,500			By Share Capital A/c		30,000
		To Share First Call A/c		6,000			(Being the 3,000 shares of Rs.10 each forfeited due to non-payment of Rs.2.50 on allotment Rs.2 first call & Rs3 on second and final call.)		
		To Share Second and final Call A/c		9,000					
		To Share Forfeited A/c		7,500					

The Posting of Day book into the Ledger A/c will be as follows:

Dr.					Share Capital A/c					Cr.				
Date	V. No.	Particulars	F	Amount Rs.	Date	V. No.	Particulars	F	Amount Rs.					
		To Amount as per Day Book		30,000										

Dr.					Share Allotment A/c					Cr.				
Date	V. No.	Particulars	F	Amount Rs.	Date	V. No.	Particulars	F	Amount Rs.					
							By Amount as per Day Book		7,500					

Dr.					Share First Call A/c					Cr.				
Date	V. No.	Particulars	F	Amount Rs.	Date	V. No.	Particulars	F	Amount Rs.					
							By amount as per Day Book		6,000					

Dr.					Share Second Call A/c					Cr.				
Date	V. No.	Particulars	F	Amount Rs.	Date	V. No.	Particulars	F	Amount Rs.					
							By amount as per Day Book		9,000					

Dr.					Share Forfeited A/c					Cr.				
Date	V. No.	Particulars	F	Amount Rs.	Date	V. No.	Particulars	F	Amount Rs.					
							By amount as per Day Book		7,500					

You have already learnt that sometimes the shares are oversubscribed. In such a case, some shares are rejected and others are allotted on pro-rata basis. In case of pro-rata allotment of shares, the excess money received on applications is transferred to Share Allotment A/c from Share Application A/c. For this purpose, we consider the number of shares applied for by defaulters and not the number of shares allotted to them. The number of shares applied can be calculated as:

$$\begin{array}{l} \text{No. of shares} \\ \text{applied for by defaulting} \\ \text{shareholder} \end{array} = \frac{\text{Total shares} \\ \text{application considered} \times \text{Shares allotted} \\ \text{to defaulter}}{\text{Total Shares allotted}}$$

It will be more clear with the help of following illustration.

Illustration 2

Akshay Ltd. received applications for 1,40,000 shares, 20,000 shares were rejected and allotment is made for 1,00,000 shares on pro-rata basis. A shareholder, who has been allotted 3,000 shares, paid only share application money @ Rs.2.50 per share and failed to pay share allotment @ Rs.2.50, Share first call @ Rs.2.00 and Share final call @ Rs.3.00 per share. Pass journal entry and prepare transfer voucher to record forfeiture of shares.

Solution

(i) The number of shares applied can be calculated as:

Total number of shares applied = 1,20,000

Total number of shares allotted = 1,00,000

Shares allotted to defaulter = 3,000

$$\begin{array}{l} \text{No. of shares} \\ \text{applied by defaulter} \end{array} = \frac{\text{Total no. of shares} \\ \text{applied} \times \text{Number of shares} \\ \text{allotted to defaulter}}{\text{Total No. of shares allotted}}$$

$$= \frac{1,20,000 \times 3000}{1,00,000}$$

$$= 3,600 \text{ Shares}$$

Now the Journal entry to record forfeiture will be as :

Share Capital A/c	Dr.	30,000	
(3,000 × 10)			
To Share Forefeited A/c		9,000	
(3,600 × 2.50)			
To Shares Allotment A/c		6,000	
[(3,000 × 2.50) – 1,500 Excess Money]			
To Share 1st Call A/c		6,000	
(3,000 × 2)			
To Share Second Call A/c		9,000	
(3,000 × 3)			

(Being 3,000 shares forfeited due to the non-payment of Allotment, first call and second call)

ii) The amount for share forfeited A/c will be calculated as:

No. of Shares applied by defaulter × Share application Money

$$3,600 \times 2.50 = 9,000$$

iii) The amount for Share Allotment A/c will be calculated as:

Amount due on Allotment

$$3,000 \times 2.50 = 7,500$$

Amount received at the time of application

(3,600 × 2.50)	9,000
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Amount transferred to Share Capital A/c

(3,000 × 2.50)	7,500
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Excess Money adjusted towards Share Allotment	<u>1,500</u>
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Share Allotment	Rs. 6,000
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$$(7,500 - 1,500)$$

The following transfer voucher will be prepared :

AKSHAY LTD		Amount Rs.
Voucher No. Date		
Debit :	Share Capital A/c	30,000
Credit :	Share forfeited A/c	9,000
	Share Allotment A/c	6,000
	Share 1st Call A/c	6,000
	Share Second Call A/c	9,000
	(Being 3,000 shares forfeited due to non payment of Share Allotment, Share 1st Call and Second Call on pro-rata basis)	30,000
		30,000
Sd/- Manager		Sd/- Accounted

Case II Forfeiture of Shares issued at Premium

If the forfeited shares were issued at a premium then there may be two situations:

- (1) The amount of share premium has been received in full prior to forfeiture.
 - (2) The amount of share premium has not been received, but it stands credited to 'Share Premium A/c' when the amount becomes due.
- (1) Where the amount of Share Premium has been received in full prior to forfeiture**

If the amount of Premium had been received prior to forfeiture of shares, the share premium account need not be disturbed. The journal entry and accounting voucher for recording the forfeiture of shares in this case will be similar to that of the forfeiture of shares issued at par.

- (2) **When the amount of Share Premium has not been received, but it stands credited to Share Premium A/c when amount becomes due**

Where, shares are forfeited for non payment of instalments which include the premium, premium A/c must be reduced by the amount of premium received at the time of forfeiture. The journal entry for this effect will be as follows:

Accounting voucher for recording the above transaction will be as follows:

HITESH LTD		
Voucher No.		Date
		Amount Rs.
Debit	<u>Share Capital A/c</u> with the amount called up on 100 shares @ Rs.13 (100×13)	1,300
	<u>Share Premium A/c (100×5)</u>	500
		1,800
Credit	<u>Calls in Arrears A/c</u> Share First Call A/c (100×8)	800
	Share forfeited A/c (100×10) (For forfeiture of 100 shares with defaulted premium)	1,000
		1,800
Sd/- Manager		Sd/- Accountant

DAY BOOK OF HITESH LTD.

Receipts					Payments				
Date	V. No.	Particulars	F Amount Rs.	Transfer Rs.	Date	V. No.	Particulars	F Amount Rs.	Transfer Rs.
		To Share allotment A/c (Being the amount un- paid on 100 shares @ Rs.8 per share		800			By Share Capital A/c (Being the amount called upon 100 forfeited shares @ Rs.13 per Shares		1,300
		To Share Forfeited A/c (on 100 shares @ Rs.10 per Share)		1000			By Share Premium A/c (With the amount of share premium on 100 shares @ Rs.5)		500

Dr.					Share Forfeited A/c					Cr.	
Date	V. No.	Particulars	F	Amount Rs.	Date	V. No.	Particulars	F	Amount Rs.		
							To Amount as per Day Book		1,000		

Dr.					Share Capital A/c					Cr.	
Date	V. No.	Particulars	F	Amount Rs.	Date	V. No.	Particulars	F	Amount Rs.		
		To Amount as per Day Book		1,300							

Dr.					Share Premium A/c					Cr.	
Date	V. No.	Particulars	F	Amount Rs.	Date	V. No.	Particulars	F	Amount Rs.		
		To Amount as per Day Book		500							

Dr.					Share First Call A/c					Cr.	
Date	V. No.	Particulars	F	Amount Rs.	Date	V. No.	Particulars	F	Amount Rs.		
							To Amount as per Day Book		800		

Illustration 4

Rahi Ltd forfeited 10 shares of Rs.10 each at a premium of 10% on which Rs.8 including premium was called and Rs.6(including premium) was paid. The first call of Rs.2 per share remained unpaid, company forfeited these shares. Record the transactions in the books of the company for the forfeiture of shares through journal entry and accounting voucher. Prepare necessary A/cs for the same.

Solution

Journal of Rahi Ltd

Share Capital A/c	Dr.	70	
To Share forfeited A/c			50
		(10 × 5)	
To Share First Call A/c			20
		(10 × 2)	

(Being 10 shares forfeited for non-payment of call of Rs.2 per share)

The following accounting voucher will be prepared:

RÁHI LTD		Date
Voucher No.	Amount Rs.	
Debit	<u>Share Capital A/c (10×7)</u> with the amount called up	70
		70
Credit	<u>Share Unpaid Calls A/c</u> <u>Share First Call A/c (10×2)</u> <u>Share Forfeited A/c (10×5)</u> (Being 10 shares forfeited for non-payment of call of Rs.2 per share)	20 50
		70
Sd/- Manager	Sd/- Accountant	

Receipts			DAY BOOK				Payments				
Date	V. No.	Particulars	F	Transfer Rs.	Amount Rs.	Date	V. No.	Particulars	F	Transfer Rs.	Amount Rs.
		To Share First Call A/c (Being the amount unpaid on 10 forfeited shares (10 × 2)		20				By Share Capital A/c (Being the amount called up on 10 forfeited shares @ Rs.7 (10 × 7)		70	
		To Share Forfeited A/c (Being the amount received on 10 shares forfeited @ Rs.5 (10×5)			50						

The Posting of Day Book into the Ledger A/c will be as follow:

Dr.					Share Capital A/c					Cr.
Date	V. No.	Particulars	F	Amount Rs.	Date	V. No.	Particulars	F.	Amount Rs.	
		To Amount as per Day Book		70						

Dr.					Share First Call A/c					Cr.
Date	V. No.	Particulars	F	Amount Rs.	Date	V. No.	Particulars	F.	Amount Rs.	
							By amount as per Day Book		20	

Dr.					Share Forfeited A/c					Cr.
Date	V. No.	Particulars	F	Amount Rs.	Date	V. No.	Particulars	F.	Amount Rs.	
							By amount as per Day Book		50	

Illustration 5

H.Ltd. issued a prospectus inviting applications for 2,000 shares of Rs.10 each at a premium of Rs.2 per share payable as follows:

- On Application Rs. 2 per share
- On Allotment Rs. 4 per share (including premium)
- On First Call Rs. 3 per share
- On Second Call Rs. 2 per share

Applications were received for 3,000 shares and allotment was made on pro-rata basis to the applicants of 2,400 shares. The remaining applications were refused. Money overpaid on applications was employed on account of sums due on allotment.

Rama to whom 40 shares were allotted failed to pay allotment money and her shares were forfeited after the last date for the payment of first call.

Maini, the holder of 60 shares failed to pay the two calls and his shares were forfeited after the final call. Show the accounting treatment of forfeiture of shares.

Solution

Journal Entry for the forfeiture of 40 shares

Share Capital A/c	Dr.		320	
		(40×8)		
Share Premium A/c	Dr.		80	
		(40×2)		
		To Share Forfeited A/c		96
		(48×2)		
		To Share Allotment A/c		184
		[(40×5-16)]		
		To Share First Call A/c		120
		(40×3)		

(Being 40 shares forfeited due to the non-payment of allotment and first call money)

Accounting voucher for recording the forfeiture of shares will be as follows:

H. LTD		Date
Vouhcer No.		Amount Rs.
Debit	<u>Share Capital A/c</u> (40×8)	320
	<u>Share Premium A/c</u> (40×2)	80
		400
Credit	<u>Share Unpaid Calls A/c</u>	304
	Share allotment A/c 184	
	Share first call A/c 120 (40×3)	
	<u>Share forfeited A/c</u> (48×2)	96
	(Being 40 shares forfeited due to non-payment of allotment and first call money)	
		400
Sd/- Manager		Sd/- Accountant

Working Notes :

Total number of shares applied . 2,400

Total number of shares allotted 2,000

Shares allotted to Rama 40

Shares applied by Rama ?

DAY BOOK OF HITESH LTD**Receipts****Payments**

Date	V. No.	Particulars	F	Transfer Rs.	Amount Rs.	Date	V No.	Particulars	F	Transfer Rs.	Amount Rs.
		To Share call A/c		184				By Share Capital A/c (Being the amount called up on 40 forfeited shares @ Rs.18 per share)		320	
		To Share First call A/c		120							
		To Share Forfeited A/c (Being the allotment and first call money on 40 shares)		96				By Share Premium A/c (With the amount of share premium on 40 shares @ Rs.2)		80	
					1000						

The Posting of Day-Book into Ledger accounts will appear as follows:

Dr.					Share Forfeited A/c					Cr.	
Date	V. No.	Particulars	F	Amount Rs.	Date	V. No.	Particulars	F	Amount Rs.		
							By Amount as per Day Book		96		

Dr. Share Capital A/c					Cr.				
Date	V. No.	Particulars	F	Amount Rs.	Date	V. No.	Particulars	F	Amount Rs.
		To Amount as per Day Book		320					

Dr. Share Premium A/c					Cr.				
Date	V. No.	Particulars	F	Amount Rs.	Date	V. No.	Particulars	F	Amount Rs.
		To Amount as per Day Book		80					

Dr. Share First Call A/c					Cr.				
Date	V. No.	Particulars	F	Amount Rs.	Date	V. No.	Particulars	F	Amount Rs.
							By amount as per Day Book		120

Dr. Share Allotment A/c					Cr.				
Date	V. No.	Particulars	F	Amount Rs.	Date	V. No.	Particulars	F	Amount Rs.
							By amount as per Day Book		184

Journal Entry for the forfeiture of 60 shares

Share Capital A/c	Dr.	600	
(60×10)			
To Share Forfeited A/c		300	
(60×5)			
To Share First Call A/c		180	
(60×3)			
To Share Second & Final Call A/c		120	
(60×2)			

(Being 60 shares held by Maini forfeited due to the non-payment of first and second calls.)

The following accounting voucher is prepared to record forfeiture of shares:

H. LTD		
Voucher No.		Date
		Amount Rs.
Debit	<u>Share Capital A/c (60×10)</u>	600
		600
Credit	<u>Share Unpaid Calls A/c</u> with the amount unpaid on 60 shares forfeited share first call (60×3) = 180 share second call (60×2) = 120	300
	<u>Share Forfeited A/c (60×5)</u>	300
		600
Sd/- Manager		Sd/- Accountant

Now see the recording of Maimi's forfeited shares in the Day Book:

Receipts					DAY BOOK					Payments	
Date	V. No.	Particulars	F	Transfer Rs.	Amount Rs.	Date	V. No.	Particular	F	Transfer Rs.	Amount Rs.
		To Share First Call A/c		180				By Share Capital A/c (Being the amount called up on 60 forfeited shares @ Rs. 10 per share)		600	
		To Share Second Call A/c (Being the amount unpaid on 60 forfeited shares)		120							
		To Share Forfeited A/c (Being the amount received on 60 forfeited shares)		300							

The Posting of Day book into the Ledger A/cs will be as follows:

Dr.					Share Capital A/c					Cr.				
Date	V. No.	Particulars	F	Amount Rs.	Date	V. No.	Particulars	F	Amount Rs.					
		To amount as per Day Book		600										

Dr.					Share First Call A/c					Cr.				
Date	V. No.	Particulars	F	Amount Rs.	Date	V. No.	Particulars	F	Amount Rs.					
							By amount as per Day Book		180					

Dr.					Share Second Call A/c					Cr.				
Date	V. No.	Particulars	F	Amount Rs.	Date	V. No.	Particulars	F	Amount Rs.					
							By amount as per Day Book		120					

Dr.					Share Forfeited A/c					Cr.				
Date	V. No.	Particulars	F	Amount Rs.	Date	V. No.	Particulars	F	Amount Rs.					
							By amount as per Day Book		300					

Case III Forfeiture of Shares issued at discount

The Discount on issue of shares is a loss to the company. When some of these shares are forfeited, the discount on forfeited shares should be cancelled. For cancelling 'Discount on Issue of Shares A/c' is credited because the same A/c was debited at the time of issue of shares. In this case, the following journal entry is passed.

Share Capital A/c Dr. (No. of shares forfeited × amount called up per share)
 To Share forfeited A/c (Amount received upto forfeiture)
 To Discount on issue of shares A/c (Discount allowed on forfeited shares)
 To unpaid calls A/c (Amount called but not received)

The following accounting voucher will be prepared:

NAME OF THE COMPANY		Date
Voucher No.	Amount Rs.	
Debit	<u>Share Capital A/c</u>	
Credit	<u>Share Allotment or Calls A/c</u> with the amount remaining unpaid on forfeited shares (i) Allotment A/c @ Rs..... (..... ×) (ii) First Call A/c @ Rs..... (..... ×) (iii) Second Call A/c @ Rs.... (..... ×) <u>Share Forfeited A/c</u> with the amount received on forfeited shares paid on) <u>Discount on issue of Shares A/c</u> with the amount of discount originally allowed on forfeited shares	
Sd/- Manager	Sd/- Accountant	

Illustration 6

Star company Ltd invited applications for 5,000 shares of Rs.100 each at discount of 5% payable as follows:

On Application Rs.25, on allotment Rs.35 and on First & Final Call Rs.35 per share.

Whole of the issue was subscribed and paid for except the final call on 100 shares which were forfeited by the Company after giving due notice.

Show the accounting treatment on forfeiture of shares.

Solution

Journal Entry

Share Capital A/c	Dr. (100 × 100)	10,000
	To Share forfeited A/c (100 × 60)	6,000
	To Discount on issue of shares A/c (100 × 5)	500
	To Share First & Final Call A/c (100 × 35)	3,500

(Forfeiture of 100 shares issued at a discount of 5%)

In this case, the following voucher will be prepared:

STAR COMPANY LTD		
Voucher No.	Date	Amount Rs.
Debit	<u>Share Capital A/c (100×100)</u>	10,000
		10,000
Credit	<u>Share Final Call A/c (100×35)</u>	3,500
	<u>Share forfeited A/c (100×60)</u>	6,000
	<u>Discount on issue of shares A/c (100×5)</u> (For forfeiture of 100 shares issued at a discount of 5%)	500
		10,000
Sd/- Manager		Sd/- Accountant

As it is a transfer voucher it will be recorded on both sides of the Day Book as follows:

Receipts				DAY BOOK				Payments			
Date	V. No.	Particulars	F	Transfer Rs.	Amount Rs.	Date	V. No.	Particular	F	Transfer Rs.	Amount Rs.
		To Share Final call A/c (Being the amount unpaid on 100 shares @ Rs. 35)			3,500			By Share Capital A/c (Being the amount called up on 100 forfeited shares @ Rs.100 (100×100))			10,000
		To Share Forfeited A/c (Being the amount received on 100 shares @ Rs.60)			6,000						
		To Discount on issue of shares A/c (Being the amount of discount originally allowed on 100 shares @ Rs.5 per share)			500						

The Posting of Day-Book into Ledger accounts will appear as follows:

Share Capital A/c

Date	V. No.	Particulars	F	Amount Rs.	Date	V. No.	Particulars	F	Amount Rs.
		To Amount as per Day Book		10,000					

Share Final Call A/c

Date	V. No.	Particulars	F	Amount Rs.	Date	V. No.	Particulars	F	Amount Rs.
							By Amount as per Day Book		3,500

Share Forfeited A/c

Date	V. No.	Particulars	F	Amount Rs.	Date	V. No.	Particulars	F	Amount Rs.
							By Amount as per Day Book		6,000

Share First Call A/c

Date	V. No.	Particulars	F	Amount Rs.	Date	V. No.	Particulars	F	Amount Rs.
							By amount as per Day Book.		500

INTEXT QUESTIONS 28.2

Calculate the amount and fill in the blanks:

	(a)	(b)	(c)
(1) Called up amount	Rs. 10	Rs. 8	Rs. 6
Paid up amount	Rs. 5	Rs. 3	Rs. 1
Share Capital A/c will be debited with	Rs. ___	Rs. ___	Rs. ___
(2) Face value of shares	Rs. 10	Rs. 100	Rs. 50
Premium on shares	Rs. 2	Rs. 25	Rs. 10
Called up amount including premium	Rs. 10	Rs. 100	Rs. 50
Paid up amount including premium	Rs. 8	Rs. 80	Rs. 40
Call in arrears credited with	Rs. ___	Rs. ___	Rs. ___
Share forfeited A/c credited with	Rs. ___	Rs. ___	Rs. ___
(3) No. of shares issued	10,000	3,000	1,000
Face value per share	Rs. 10	Rs. 10	Rs. 10

No of shares forfeited	100	50	10
Amount called up per share	Rs.10	Rs.8	Rs.6
After forfeiture share capital a/c balance	Rs.	Rs.	Rs.

28.5 WHAT YOU HAVE LEARNT

1. Meaning of Forfeiture of Shares

If the company cancels the right of claim on the amount paid by defaulting members, it is known as 'Forfeiture of Shares'.

Legal provisions

- (i) The power to forfeit shares is given in the Articles of Association.
- (ii) The Board of Directors have to give 14 day notice to the defaulting shareholders before the forfeiture of shares.

2. Accounting treatment

There are three possible cases when the shares can be forfeited:

- (1) Shares issued at par.
- (2) Shares issued at premium.
 - (i) Premium received in full
 - (ii) Premium due but not yet received.
- (3) Shares issued at discount. The necessary accounting voucher is transfer voucher.
 - (i) In all cases share capital A/c (Debited) refers to the amount called up on forfeited shares.
 - (ii) Calls in Arrears A/c (credited) refers to the amount not paid on different calls i.e. on allotment, on first call and on second and final call.
 - (iii) Share forfeited A/c (credited) refers to the amount received on forfeited shares.
 - (iv) Share premium A/c (debited if not received) refers to the amount of share premium on forfeited shares.

- (v) Discount on issue of shares (credited) refers to the amount of discount at the time of issue of forfeited shares.

28.6 TERMINAL QUESTIONS

1. What do you mean by the term 'forfeiture of shares'? When can shares be forfeited ?
2. X Ltd. forfeited 100 equity shares of Rs.10 each due to the non-payment of final call of Rs.3 per share. These shares were originally issued at a discount of Rs.1 per share. Give journal entry as well as accounting voucher to record the forfeiture of shares.
3. A Ltd. issued 10,000 shares of Rs.10 each at a premium of Rs.2 per share payable Rs.5 on application and Rs.7 per share on allotment (including premium). Varun who was allotted 200 shares by the company failed to pay the allotment amount and his shares were forfeited by the company. Pass the journal entry as well as prepare the accounting voucher for the forfeiture of defaulting shares.
4. Sahara India Ltd. invited applications for 15,000 shares of Rs.10 each issued at a premium of Rs.3 per share payable as Rs.3 on application, Rs.6 on allotment including premium of Rs.2 on first call and Rs.2 on final call. Applications were received for 20,000 shares and pro-rata allotment was made to the applicants for 18,000 shares. Application for remaining shares were rejected and their application money returned. Karan a holder of 300 shares failed to pay the allotment money and on his subsequent failure to pay the first call, his shares were forfeited. Sunil a holder of 200 shares, failed to pay the two calls. His shares were forfeited after the final call. Pass the journal entries and accounting vouchers and relevant accounts to record the forfeiture.

28.7 ANSWERS TO INTEXT QUESTIONS

28.1

- | | |
|-------------------------------|------------------------------------|
| (i) forfeit | (ii) a) cancellation of membership |
| | b) reduction of capital |
| (iii) Articles of Association | (iv) defaulting |

28.2

- (I) a) 10
b) 8
c) 6
- (II) i) a) 2 b) 20 c) 10 Calls in Arrear
ii) a) 6 b) 55 c) 30 Shares Forfeited A/c
iii) a) Rs. 99,000
b) Rs. 23,600
c) Rs. 5,940