

Tutorial Notes

Class: B.Com (Prog.) Semester III (CC9)

Subject: Corporate Accounting.

Topic: Re issue of forfeited shares and relevant entries.

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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 of 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 Rs. 3 on 100 shares of the face value Rs. 10. But, he fails to pay the allotment money. The company forfeits his shares and re-issues them. Now, the amount in arrear is Rs. 7 per share. The company can re-issue the shares at Rs. 7 or more. Thus, it cannot issue shares at a price less than Rs. 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 in different cases.

<p>1. When forfeited shares are re-issued at par</p>	<p>Bank A/c.....Dr To Share Capital A/c (Being re-issue of ---- forfeited shares of Rs--- each @ par)</p>
<p>2. When forfeited shares are re-issued at premium.</p>	<p>Bank A/c.....Dr To ---Share Capital A/c To Securities Premium A/c (Being ---forfeited shares of Rs--- each are re-issued at premium --- per share)</p>
<p>3. When forfeited shares are re-issued at discount</p>	<p>Bank A/cDr Share Forfeiture A/c.....Dr To Share Capital A/c (Being re-issue of --- shares of Rs.—each at a discount of - --)</p>
<p>4. When surplus amount in share forfeiture account transferred to capital Reserve A/c.</p>	<p>Share Forfeiture A/c.....Dr To Capital Reserve A/c (Being surplus amount in share forfeiture account transferred to capital reserve account)</p>