

Tutorial Notes

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

Subject: Corporate Accounting.

Topic: Forfeiture of Shares and relevant entries.

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Forfeiture of Share

A company can forfeit shares on non-payment of the number of calls. The company before forfeiture must first give clear 14 days' notice to the defaulting shareholder that he shall pay the due amount along with the interest.

If not paid by the specified date, the shares shall be forfeited. If the shareholder still does not pay, the company may forfeit the shares by passing an appropriate resolution.

On forfeiture, we need to cancel the shares and to that extent, reduce the Share Capital. The amount received by the company is not refunded.

Till the time the company re-issues the forfeited shares, it adds the balance of the Forfeited Shares Account to paid-up capital under Subscribed Capital in the Notes to Accounts on 'Share Capital'.

Being part of shareholders' Funds we show it under Equity and Liabilities part of the Balance Sheet.

Accounting Entries on Forfeiture of Share

The company may issue the forfeited shares at par or at a premium. Accounting entry for forfeiture will vary according to the situation.

1. When Forfeiture of shares Issued at Par

1. The company debits the Share Capital Account with the amount called-up up to the date of forfeiture on shares.
2. It credits the Shares Allotment Amount or Shares Call Account with amount called-up on forfeited shares but due from the shareholders. If we are maintaining Calls-in-Arrears Account then we credit Calls-in-Arrears Account.

The company credits the Forfeited Shares Account by the receipt of the amount on the shares forfeited.

Journal entry for forfeiture of shares is:

Share Capital A/c	Dr.		
	To Forfeited Shares Account A/c	Cr.	
	To Shares Allotment A/c	Cr.	
	To Shares Call A/c	Cr.	

If, we maintain Calls-in-Arrears Account we will credit Calls-in-Arrears Account instead of “Shares Allotment Amount” and “Shares Call Account”.

2. Forfeiture of Shares which were originally issued at Premium

When shares issued at a premium are forfeited, two following possibilities exist:

a. Securities Premium amount has been received:

In this case, we will debit the Share Capital Account with the amount called up and will credit Forfeited Shares (amount received less premium), Shares Allotment (amount not received on allotment), First Call (amount not received on calls); Final Call Account in the same manner.

Journal entry will be:

Share Capital A/c	Dr.		
	To Forfeited Shares A/c	Cr.	
	To Shares Allotment A/c	Cr.	
	To First Call A/c	Cr.	

b. Securities Premium amount has not been received:

In this case, we will debit the Share Capital Account with the amount called-up. If Securities Premium has not been received, we will debit Securities Premium in order to cancel it.

And we will credit Forfeited Shares (amount received less premium), Shares Allotment (amount not received on allotment), First Call (amount not received on calls); Final Call Account in the same manner.

Share Capital A/c	Dr.		
Securities Premium A/c	Dr.		
	To Forfeited Shares A/c	Cr.	
	To Shares Allotment A/c	Cr.	
	To First Call A/c	Cr.	