

# Corporate Accounting Part 3

## Forfeiture and Reissue of shares

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### Forfeiture and Reissue of shares

#### Accounting Journal Entries of Reissue of Forfeited Shares:

The accounting journal entries of the reissue of forfeited share can be recorded on the basis of the types of reissue i.e. at par, at a premium, or on discount. these are shown as following:

- 1) Reissued at Par
- 2) Reissued at Discount
- 3) Reissued at Premium

#### 1. When the Reissued at Par:

When the shares are reissued at par then the following journal entry will be recorded in the books:

Date	Particulars	L.F.	Debit	Credit
	Bank A/c To Share Capital A/c (Being forfeited shares are issued)	Dr.	*****	*****

The amount will be calculated as the following:

**Bank A/c:** The amount received against the reissued of shares.

## 2. When the Reissued at Premium:

When the shares are reissued at par then the following journal entry will be recorded in the books:

Date	Particulars	L.F.	Debit	Credit
	Bank A/c	Dr.	*****	
	To Share Capital A/c			*****
	To Security Premium A/c			***
	(Being forfeited shares are issued at a premium)			

The amount will be calculated as the following:

**Bank A/c:** The amount received against the reissued of shares.

**Share Capital A/c:** The total called up capital will be recorded in this column.

**Share Premium A/c:** The amount charged extra from the total called up capital.

### 3. When the Reissued on Discount:

When the shares are reissued at par then the following journal entry will be recorded in the books:

Date	Particulars	L.F.	Debit	Credit
	Bank A/c	Dr.	*****	
	Share Forfeited A/c	Dr.	***	
	To Share Capital A/c			*****
	(Being forfeited shares are issued at a Discount)			

The amount will be calculated as the following:

**Bank A/c:** The amount received against the reissued of shares.

**Share Forfeited A/c:** The amount charged less than the total called up capital which will be deducted from the Balance of shares forfeited account.

**Share Capital A/c:** The total called up capital will be recorded in this column.

### Accounting Treatment Balance of Share Forfeited account:

The balance of the share forfeited account will be transferred to the Capital reserve account after reissuing of shares.

Date	Particulars	L.F.	Debit	Credit
	Share Forfeited A/c	Dr.	***	
	To Capital Reserve A/c			*****
	(Being balance of share forfeited account transferred to capital reserve a/c)			

**Share Forfeited A/c:** The balance of the share forfeited account left after deduction of discount amount.

**Capital Reserve A/c:** The balance of the Share Forfeited account transferred to the capital reserve account.

### Formula of finding capital reserve

$$= \left( \frac{\text{Total amount forfeited}}{\text{No. of shares forfeited}} \times \text{No. of shares reissued} \right) - \left( \text{Amount with which Forfeited Shares Account was debited at the time of reissue of such shares. Or Reissue Discount} \right)$$

### Formula of finding capital reserve

**Capital Reserve= {Amount of share forfeited/No. Of shares forfeited × no. Of shares reissued} - Amount of discount on reissue**

**Q. The directors of a company forfeited 200 equity shares of Rs. 10 each on which Rs. 800 had been paid. The Shares were re-issued upon payment of Rs. 1,500**

**Answer (a)**

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Share Capital A/c (200×10) Dr		2,000	
	To Calls-in-Arrears A/c			1,200
	To Share Forfeiture A/c			800
	(Being 200 shares forfeited for non-payment of ₹ 1200 )			
	Bank A/c Dr		1,500	
	Share Forfeiture A/c Dr		500	
	To Share Capital A/c			2,000
	(Being 200 shares reissued for ₹ 1,500)			
	Share Forfeiture A/c Dr		300	
	To Capital Reserve A/c			300
	(Being balance of share forfeiture transferred to capital reserve)			

**Journalise the following transaction in the books Bhushan Oil Ltd:**  
 (a) 200 shares of Rs.100 each issued at a discount of Rs.10 were forfeited for the non payment of allotment money of Rs.50 per share. The first and final call of Rs.20 per share on these share were not made. The forfeited share were reissued at Rs.70 per share as fully paid-up.

**Answer Case (a)**

**Journal Entries**

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Share Capital A/c To Share Allotment A/c (200×50) To Share Forfeiture A/c (200×20) To Discount on Issue of Shares (20×10) (Being 200 shares forfeited @ ₹ 100 each issued at a discount of ₹ 10 for the nonpayment of allotment money ₹ 50 per share )	Dr	16,000	10,000 4,000 2,000
(ii)	Bank A/c (200×70) Discount on Issue of Shares A/C (200×10) Share Forfeiture A/c To Share Capital A/c (Being 600 shares reissued @ ₹ 70 per share fully paid-up)	Dr Dr Dr	14,000 2,000 4,000	20,000

**Note** There will be no capital reserve in case (a) as full amount transferred to forfeiture account is adjusted on reissue.

Money received on application will be ₹ 20 per share after deducting ₹ 20 for final call, ₹ 10 for discount and ₹ 50 for allotment from face value ₹ 100.

**Q. (b)** 150 shares of Rs.10 each issued at a premium of Rs.4 per share payable with allotment were forfeited for non-payment of allotment money of Rs.8 per share including premium. The first and final call of Rs.4 per share were not made. The forfeited share were reissued at Rs.15 per share fully paid-up.

Case (b)

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Share Capital A/c (150×6) Dr Securities Premium A/c (150×4) Dr To Share Allotment A/c (150×8) To Share Forfeiture A/c (150×2) (Being 150 shares @ ₹ 10 each forfeited for nonpayment of a allotment money ₹ 8 per share including premium ₹ 4)		900 600	1,200 300
(ii)	Bank A/c (150×15) Dr To Share Capital A/c (150×10) To Securities Premium A/c (150×5) (Being 150 shares @ ₹ 10 each reissued for ₹ 15 per share fully paid-up)		2,250	1,500 750
(iii)	Share Forfeiture A/c Dr To Capital Reserve A/c (Being balance of share forfeiture account transferred to capital reserve account)		300	300

**Capital Reserve =**

$$= \left( \frac{\text{Total amount forfeited}}{\text{No. of shares forfeited}} \times \text{No. of shares reissued} \right) - \left( \text{Amount with which Forfeited Shares Account was debited at the time of reissue of such shares. Or Reissue Discount} \right)$$

**Q. (c)** 400 share of Rs.50 each issued at par were forfeited for non-payment of final call of Rs.10 per share. These shares were reissued at Rs.45 per share fully paid-up.

Case (c)

### Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Share Capital A/c (400×50) <span style="float:right">Dr</span> To Share Final Call A/c (400×10) To Share Forfeiture Call A/c (400×40) (Being 400 shares @ ₹ 50 per share forfeited for non-payment of final call ₹10 per share)		20,000	4,000 16,000
(ii)	Bank A/c (400×45) <span style="float:right">Dr</span> Share Forfeiture A/c (400×5) <span style="float:right">Dr</span> To Share Capital A/c (Being 400 shares @ ₹ 50 each reissued for ₹ 45 fully paid-up)		18,000 2,000	20,000
(iii)	Share Forfeiture A/c <span style="float:right">Dr</span> To Capital Reserve A/c (Being balance in share forfeiture account transferred to capital reserve account)		14,000	14,000

### Working Note

#### Calculation of Capital Reserve

Amount transferred to share forfeiture	16,000
(-) Amount adjusted on reissue	(2,000)
Amount transferred to capital reserve	<u>14,000</u>

**Capital Reserve =**

$$= \left( \frac{\text{Total amount forfeited}}{\text{No. of shares forfeited}} \times \text{No. of shares reissued} \right) - \left( \text{Amount with which Forfeited Shares Account was debited at the time of reissue of such shares. Or Reissue Discount} \right)$$

