

Re-Issue of Forfeited Shares

A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but

Only a sale. When shares are re-issued, return of the forfeited shares need not be filed under Section 75(1) of the Companies Act, 1956.

The share, after forfeiture, in the hands of the company is subject to an obligation to dispose it of. In practice, forfeited shares are disposed off by auction. These shares can be re-issued at any price so long as the total amount received (from the original allottee and the second purchaser) for those shares is not less than the amount in arrear on those shares.

Accounting Entries

(a) Bank Account	Dr. [Actual amount received]
Forfeited Shares Account	Dr. [Loss on re-issue]
To Share Capital Account	

(Being the re-issue ofshares @ Rs..... Each as per Board's Resolution No.... Dated.)

(b) Forfeited Shares Account Dr.
 To Capital Reserve Account
(Being the profit on re-issue, transferred to
capital reserve).

Illustration

A holds 200 shares of Rs. 10 each on which he has paid Rs. 2 as application money. B holds 400 shares of Rs. 10 each on which he has paid Rs. 2 per share as application money and Rs. 3 per share as allotment money. C holds 300 shares of Rs. 10 each and has paid Rs. 2 on application, Rs. 3 on allotment and Rs. 3 for the first call. They all fail to pay

their arrears on the second and final call of Rs. 2 per share and the directors, therefore, forfeited their shares. The shares are re-issued subsequently for Rs. 12 per share fully paid-up. Journalise the transactions relating to the forfeiture and re-issue.

Solution

Journal

Date	Journal Particulars		Dr. Rs.	Cr. Rs.
	Share Capital A/c (900 x Rs. 10) To Share Allotment A/c To Share First Call A/c To Share Final Call A/c To Forfeited Shares A/c (Being forfeiture of 900 shares of Rs. 10 each for non-payment of allotment, first and final call money as per Board's Resolution No.....dated.....)	Dr.	9,000	600 1,800 1,800 4,800

Bank A/c (900 x Rs. 12)	Dr.	10,800	
To Share Capital A/c			9,000
To Securities Premium A/c			1,800
(Being the re-issue of 900 shares of Rs. 10 each @ Rs. 12 as per Board's Resolution No.....dated.....)			
Forfeited Shares A/c	Dr.	4,800	
To Capital Reserve A/c			4,800
(Being profit on re-issue transferred to Capital Reserve).			

Working Note

Shareholder	Money Received				Money Not Received on		
	Applicati on	Allotment	First Call	Final Call	Allotment	First Call	Final Call
A	200	-	-	-	200	200	200
B	400	400	-	-	-	400	400
C	300	300	300	-	-	-	300
TOTAL	900	700	300	-	200	600	900
Money Receivable	Rs.2	Rs.3	Rs.3	Rs. 2	Rs. 3	Rs.3	Rs.2
	Rs.1,800	Rs. 2,100	Rs. 900	-	Rs. 600	Rs. 1,800	Rs. 1,800

Issue of shares for consideration other than cash

Public limited companies, generally, issue their shares for cash and use such cash to buy the various types of assets needed in the business. Sometimes, however, a company may issue shares in a direct exchange for land, buildings or other assets. Shares may also be issued in payment for services rendered by promoters, lawyers in the formation of the

company. In the Balance Sheet, these shares should be shown separately.

Within one month of allotment, the company must produce before the Registrar a written contract of sale of service in respect of which shares have been allotted.

Accounting Entries

(a) When assets are purchased in exchange of shares

Assets Account Dr.

To Share Capital Account

(b) When shares are issued to promoters

Goodwill Account Dr.

To Share Capital Account