

"Members may come and members may go, but the company goes on."

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## ISSUE AND FORFEITURE OF SHARES

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*Bhole Ram is a man of great skills.*

*Yes, he can create confusion where there is none !*

*It so happened :*

*A company cancelled a share of Rs. 100 and reduced the share capital by Rs. 100. Nothing wrong; it is so simple.*

*But Bhole Ram holds a different opinion. He advised the company to reduce the capital by Rs. 60 and not by Rs. 100.*

*What a strange advice !*

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### A Friend

A company needs capital.

A share is a means of raising capital.

A company is formed for carrying out large-scale business operations. It needs a very large amount of capital. Few persons cannot supply such a huge amount. Funds from thousands of people are required. So the capital of a company is divided into small parts called *shares*. These shares are sold to the public and the required amount of capital is collected. The people who purchase shares are called *shareholders*. The shareholders get a part of company's profit called *dividend*. The company gets capital. Shareholders get dividend. A share is a big boon to both.

A share is a wonderful thing. It has changed the course of economic history of the world. From a small local unit to a giant international corporation, all owe their existence to a share. It is their greatest friend.

A share is a strange thing. It is not wealth; it represents wealth. It gives certain rights. It creates certain liabilities too. A shareholder has the right to vote. He has the right to share profits. Similarly, he is liable to pay the full value of shares held by him. *A share is a bundle of rights as well as liabilities.*

There are two types of shares – Preference Shares and Equity Shares. The preference shares carry preferential<sup>1</sup> rights regarding dividend and return of capital.

1. Payment of dividend on preference shares is 'not' obligatory like payment of interest on loans. Payment is not guaranteed: only "preference" is guaranteed. That is, whenever there is payment of dividend, these shares will get preference over equity shares. That is all.

The equity shares have no special rights. They get dividend only after the preference dividend. Rate of equity dividend is not fixed.

Shares may be issued at *par* (price equal to face value), at a *discount* (less than face value), or at a *premium* (price more than face value).

Shares may be issued for *cash* or for consideration other than cash (purchase of assets).

Share-value may be collected in a *lump sum* or in *instalments* which are termed as 'Application Money,' 'Allotment Money,' 'First Call,' 'Second Call' and 'Final Call.'

Some shareholders may pay instalments even before they are called. These are called *calls in advance*. Some shareholders may fail to make payment on the due date. The unpaid calls are called *calls in arrears*.

The shares on which there are calls in arrears may be *forfeited* (cancelled) after giving due warning. The forfeited shares may be *re-issued* to others.

#### Procedure for Issue of Shares

The procedure involved in the issue of shares is as follows –

**Prospectus** It is an invitation to the public to invest in company's shares. The prospectus contains the terms and conditions of the issue. The amounts payable on application and allotment are mentioned in the prospectus.

**Applications** In response to the issue of prospectus, the company will receive applications from the public. Each application must be accompanied by a certain amount per share. The minimum amount payable on application is 5% of the value of the share.

**Allotment** It is an act of approval of applications. After the receipt of applications, a meeting of the board of directors will be called. They will decide: *whom* to allot the shares and *how many shares* are to be allotted. Letters of Allotment will be sent to the allottees and Letters of Regret will be sent to applicants whose applications have been rejected.

**Pro rata Allotment** In case of over-subscription, allotment may be made on a *pro rata* basis. An example will make the concept clear. A company issued 10,000 shares and received applications for 7,000 shares. The company made allotment on a *pro rata* basis. It means, an applicant for 7 shares will be allotted 5 shares. An applicant for 70 shares will be allotted 50 shares. The excess money, instead of being refunded, is retained and adjusted against the amount due on allotment.

**Calls** A call is a demand. A company collects share-value by making calls on its shareholders. Some shareholders may pay the instalments even before they are called. These are called '*calls in advance*'. The amount is credited to 'Calls in Advance Account' and shall be adjusted against future calls. Interest at the

prescribed by the Articles may be allowed on calls in advance. *Table A of the Companies Act permits payment of interest on calls in advance at 6% p. a.*

Some shareholders may fail to pay the calls. The unpaid calls are called '*calls in arrears*.' Table A of the Companies Act permits charging of interest on calls in arrears at 5% p. a.

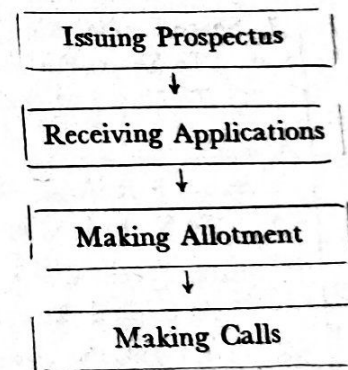
**Forfeiture of shares** Forfeiture means termination of a shareholder's membership. This is done for non-payment of calls. A resolution of the Board of Directors is essential for forfeiture. Due notice of forfeiture must be given to the shareholder. *Forfeiture reduces the share capital.*

**Re-issue of shares** Forfeited shares become the property of the company. Forfeited shares may be reissued to others. The reissue may be at *par*, at a *premium* or at a *discount*. *However, the amount of discount cannot exceed the amount already received on these shares.*

**Profit on forfeiture** Forfeiture is for non-payment of calls. The company must have received some instalments on these shares. This amount is company's '*gain*.' It is credited to 'Shares Forfeited Account.' Discount allowed on re-issue is a '*loss*'. It is debited to shares forfeited account. *Excess of amount received over discount allowed is profit on forfeiture.* It is a capital profit. It is transferred to Capital Reserve Account which is shown on the liability side of Balance Sheet. In case, only a part of the forfeited shares are reissued, *profit on re-issued shares alone* will be transferred to capital reserve. The shares forfeited account will *not* be closed in this case.

#### Chart

The chart below shows the different stages in the collection of share capital :



#### Accounting Entries

The accounting entries relating to issue of shares are given in the following two tables – the first is for beginners and the other is for advanced students.

TABLE 2

Journal Entries relating to issue of shares / *Beginner's Approach*

Journal Entries with Hints

- | Transactions                            | Journal Entries with Hints   |
|---|--|
| Share Application                       | 1. <i>Application money received:</i><br>Bank A/c<br>To Share Application A/c  |
| Share Allotment                         | 2. <i>Application money transferred to capital and excess refunded:</i><br>Share Application A/c<br>To Share Capital A/c<br>To Bank (refund) A/c |
| Share First and subsequent calls        | 3. <i>Amount 'due' on allotment:</i><br>Share Allotment A/c<br>To Share Capital A/c  |
| Forfeiture of shares                    | 4. <i>Amount 'received' on allotment:</i><br>Bank A/c<br>To Share Allotment A/c  |
| Reissue of forfeited shares at discount | 5. <i>Amount 'due' on first call:</i><br>Share First Call A/c<br>To Share Capital A/c  |
| Transfer of net gain to capital reserve | 6. <i>Amount 'received' on first call:</i><br>Bank A/c<br>To Share First Call A/c  |
|   | 7. Share Capital A/c (amount called up)<br>To Shares Forfeited A/c (amount received)<br>To Unpaid Instalments A/cs                               |
|   | 8. Bank A/c<br>Shares Forfeited (discount) A/c<br>To Share Capital A/c   |
|   | 9. Shares Forfeited A/c<br>To Capital Reserve <sup>1</sup> A/c   |

Note 1: The forfeited shares become the property of the company. Amount received on forfeited share is a 'gain'. Discount on reissue is a 'loss'. Excess of 'amount received' over 'discount on reissue' is profit on forfeiture. It is a capital profit. It is transferred to Capital Reserve Account.

TABLE 3

Journal Entries on issue and forfeiture of shares ( *Advanced Approach* )  
Special attention to Nos. 3, 8, 9, 10 & 12

- | Transactions               | Journal Entries with Hints   |
|----------------------------|--|
| Share Application          | 1. <i>Application money received:</i><br>Bank A/c<br>To Equity Share Application A/c<br>Dr.  |
| Share Allotment            | 2. <i>Application money transferred to capital, retained for allotment and excess refunded:</i><br>Equity Share Application A/c<br>To Equity Share Capital A/c<br>To Equity Share Allotment A/c<br>To Bank (refund) A/c<br>Dr.   |
| First and subsequent calls | 3. <i>Amount 'due' on allotment:</i><br>(i) <i>Issue at 'par':</i><br>Equity Share Allotment A/c<br>To Equity Share Capital A/c<br>Dr.<br>(ii) <i>Issue at 'premium':</i><br>Equity Share Allotment A/c<br>To Equity Share Capital A/c<br>To Share Premium A/c<br>Dr.<br>(iii) <i>Issue at 'discount':</i><br>Equity Share Allotment A/c<br>Discount on Issue of Shares A/c<br>To Equity Share Capital A/c<br>Dr.<br>Dr. |
|                            | 4. <i>Amount 'received' on allotment:</i><br>Bank A/c<br>To Equity Share Allotment A/c<br>Dr.  |
|                            | 5. <i>Amount 'due' on first call:</i><br>Equity Share First Call A/c<br>To Equity Share Capital A/c<br>Dr.   |
|                            | 6. <i>Amount 'received' on first call:</i><br>Bank A/c<br>To Equity Share First Call A/c<br>Dr.  |

## Forfeiture of Shares

7. *Forfeiture of shares issued at 'par' :*  
Equity Share Capital A/c  
(amount called up)  
To Shares Forfeited (amount received) A/c  
To Unpaid Instalments A/cs
8. *Forfeiture of shares issued at 'premium' (but premium not actually received) :*  
Equity Share Capital A/c  
(amount called up as capital)  
Share Premium  
(called but not received) A/c  
To Shares Forfeited (amount received) A/c  
To Unpaid Instalments A/cs
9. *Forfeiture of shares issued at premium (premium actually received) :*  
Equity Share Capital A/c  
(amount called up as capital)  
To Shares Forfeited A/c  
(amount received as capital)  
To Unpaid Instalment A/cs
10. *Forfeiture of shares issued at 'discount' :*  
Equity Share Capital A/c  
(amount credited to capital a/c so far)  
To Shares Forfeited (amount received) A/c  
To Discount on Issue of Shares A/c  
To Unpaid Instalments A/c

Note: The Share Capital Account is to be debited with 'called up' amount and not the face value

11. *Re-issue at par :*  
Bank A/c  
To Equity Share Capital A/c
12. *Re-issue at discount :*  
Bank A/c  
Discount on Issue of Shares A/c  
(original discount, if any)  
Shares Forfeited A/c (additional dis.)  
To Equity Share Capital A/c

## Re-issue of Forfeited Shares

## Advanced Journal Entries [ Contd. ]

Net gain on forfeiture transferred to Capital Reserve

Issue of shares for consideration other than cash

Expenses of Issue

13. *Re-issue at premium :*  
Bank A/c Dr.  
To Equity Share Capital A/c  
To Share Premium A/c
14. Shares Forfeited A/c Dr.  
To Capital Reserve A/c
15. *Assets and liabilities taken over :*  
Sundry Assets A/c Dr.  
To Sundry Liabilities (if any)  
To Vendor's A/c
16. *Shares issued to vendors :*  
Vendor's A/c Dr.  
To Equity Share Capital A/c
- Expenses of Issue A/c Dr.  
To Bank A/c

Note: Expenses of issue do not form part of Preliminary Expenses.

## Illustration 1 [ Simple Problem ]

The Ellora Ltd., issued 5,000 Equity Shares of Rs. 10 each, payable as follows -

On Application	... Rs. 2
On Allotment	... Rs. 3
On First Call	... Rs. 2
On Final Call	... Rs. 3

All the shares were subscribed for. All the instalments were duly collected.  
Pass Journal Entries.

**Solution** Statement of Issue of Shares

Instalments	No. of appli. / shares	Amount due	Amount received	Excess amount	Arrears
		Rs.	Rs.	Rs.	
Application ... Rs. 2	5,000	10,000	10,000	...	...
Allotment ... Rs. 3	5,000	15,000	15,000	...	...
First Call ... Rs. 2	5,000	10,000	10,000	...	...
Final Call ... Rs. 3	5,000	15,000	15,000	...	...
<b>Total ... Rs. 10</b>		<b>50,000</b>	<b>50,000</b>		

**Journal of Ellora Ltd.**

Application		L. F.	Rs.
Bank A/c	Dr.		10,000
To Share Application A/c (Being application money received)			10,000
Share Application A/c	Dr.		10,000
To Share Capital A/c (Being application money transferred to capital a/c)			10,000
<b>Allotment</b>			
Share Allotment A/c	Dr.		15,000
To Share Capital A/c (Being amount due on allotment)			15,000
Bank A/c	Dr.		15,000
To Share Allotment A/c (Being amount received on allotment)			15,000
<b>First Call</b>			
Share First Call A/c	Dr.		10,000
To Share Capital A/c (Being amount due on first call)			10,000
Bank A/c	Dr.		10,000
To Share First Call A/c (Being amount received on first call)			10,000

**Issue and Forfeiture of Shares**

**Journal Entries [Contd.]**

Final Call		Rs.	Rs.
Share Final A/c	Dr.	15,000	
To Share Capital A/c (Being amount due on final call)			15,000
Bank A/c	Dr.	15,000	
To Share Final Call A/c (Being amount received on final call)			15,000

Note: The accounts of instalments are temporary accounts and shall get closed on 'receipt' of instalments. The only entry that remains in the books is -  
 Bank A/c Dr.  
 To Share Capital A/c

**Illustration 2 [ Excess of Applications ]**

The New India Ltd. issued 7,000 Equity Shares of Rs. 100 each, payable as follows -

On Application	... Rs. 20
On Allotment	... Rs. 30
On First Call	... Rs. 25
On Final Call	... Rs. 25

The company received applications for 8,000 shares of which application for 1,000 shares were rejected and money refunded.

Amounts payable on allotment and both the calls were duly received.

Pass Journal Entries.

**Solution**

**Statement of Issue of Shares**

Instalments	No. of Appli. / Shares	Amount due	Amount received	Excess amount	Arrears
		Rs.	Rs.	Rs.	Rs.
Application ... Rs. 20	8,000	1,40,000	1,60,000	20,000	...
Allotment ... Rs. 30	7,000	2,10,000	2,10,000	...	...
First Call ... Rs. 25	7,000	1,75,000	1,75,000	...	...
Final Call ... Rs. 25	7,000	1,75,000	1,75,000	...	...
<b>Total</b>	<b>Rs. 100</b>	<b>7,00,000</b>	<b>7,20,000</b>	<b>20,000</b>	<b>...</b>

	L. F.	Rs.
<b>Application</b>		
Bank A/c (8,000 × 20) To Share Application A/c (Being application money received)	Dr.	1,60,000
Share Application A/c To Share Capital A/c (7,000 × 20) To Bank A/c (refund, 1,000 × 20) (Being transfer and refund of application money)	Dr.	1,60,000
<b>Allotment</b>		
Share Allotment A/c (7,000 × 30) To Share Capital A/c (Being amount due on share allotment)	Dr.	2,10,000
Bank A/c To Share Allotment A/c (Being amount received on allotment)	Dr.	2,10,000
<b>First Call</b>		
Share First Call A/c (7,000 × 25) To Share Capital A/c (Being amount due on share first call)	Dr.	1,75,000
Bank A/c To Share First Call A/c (Being amount received on share first call)	Dr.	1,75,000
<b>Final Call</b>		
Share Final Call A/c (7,000 × 25) To Share Capital A/c (Being amount due on share final call)	Dr.	1,75,000
Bank A/c To Share Final Call A/c (Being amount received on share final call)	Dr.	1,75,000

**Illustration 3 [ Non-payment of Calls : Expenses of Issue ]**

The Bombay Industries Ltd., made an issue of 10,000 Equity Shares of Rs. 20 each, payable at follows :

Application	...	Rs. 5 per share
Allotment	...	Rs. 10 per share
First Call	...	Rs. 3 per share
Second and Final Call	...	Rs. 2 per share

The company received applications for 12,000 shares of which applications for 2,000 shares were rejected and money refunded.

The directors made both the calls. One shareholder holding 100 shares failed pay the final call.

The Expenses of Issue amounted to Rs. 2,000.

Pass Journal Entries and show the Balance Sheet.

**Solution****Statement of Issue of Shares**

Instalments	No. of Appli./ Shares	Amount due	Amount Received	Excess amount	Arrears		
						Rs.	Rs.
Application	...	Rs. 5	12,000	50,000	60,000	10,000	...
Allotment	...	Rs. 10	10,000	1,00,000	1,00,000	...	...
First Call	...	Rs. 3	10,000	30,000	30,000	...	...
Final Call	...	Rs. 2	10,000	20,000	19,800	...	200
<b>Total</b>		<b>Rs. 20</b>		<b>2,00,000</b>	<b>2,09,800</b>	<b>10,000</b>	<b>200</b>

**Journal of Bombay Industries Ltd.**

	L. F.	Rs.	Rs.
<b>Application</b>			
Bank A/c (12,000 × 5) To Share Application A/c (Being application money received)	Dr.	60,000	60,000
Share Application A/c To Share Capital A/c To Bank A/c (refund, 2,000 × 5) (Being transfer and refund of application money)	Dr.	60,000	50,000 10,000

		L. F.	Rs.
<b>Allotment</b>			
Share Allotment A/c (10,000 × 10) To Share Capital A/c (Being amount due on allotment)	Dr.		1,00,000
Bank A/c To Share Allotment A/c (Being amount received on allotment)	Dr.		1,00,000
<b>First Call</b>			
Share First Call A/c (10,000 × 3) To Share Capital A/c (Being amount due on first call)	Dr.		30,000
Bank A/c To Share First Call A/c (Being amount received on first call)	Dr.		30,000
<b>Second and Final Call</b>			
Share Second and Final Call A/c To Share Capital A/c (Being amount due on final call)	Dr.		20,000
Bank A/c (9,900 × 2) To Share Second and Final Call A/c (Being amount received on second & final call)	Dr.		19,800
Expenses of Issue of Shares A/c To Bank A/c (Being payment of expenses of issue)	Dr.		2,000

Balance Sheet as at .....

Liabilities	Rs.	Assets	Rs.
Issued and Paid up Capital : 1,00,000 Equity Shares of Rs. 10 each 2,00,000		Cash at Bank	1,97,800
Calls in arrears 200	1,99,800	Expenses of Issue	2,000
	1,99,800		1,99,800

Note: The expenses relating to issue of shares and debentures etc. are shown on the asset side of Balance Sheet. Every year a certain amount is written off and charged to P & L A/c of the concerned year. In this way, the expenditure is spread over a number of years.

**Illustration 4 [ Interesting Allotment : Issue of Shares for Assets ]**

The Fine Products Ltd., was formed with an authorised capital of Rs. 10,00,000 divided into 1,00,000 Equity Shares of Rs. 10 each.

The company issued 50,000 shares for public subscription. The amount was payable as follows :

On Application	...	Rs. 2 per share
On Allotment	...	Rs. 4 per share
On First Call	...	Rs. 3 per share
On Final Call	...	Rs. 1 per share

Applications were received for 60,000 shares and allotment was made as follows :

Applicants for 4,000 shares	...	No allotment
Applicants for 16,000 shares	...	10,000 shares allotted
Applicants for 40,000 shares	...	Full allotment

A shareholder holding 200 shares failed to pay the two calls.

The company purchased a Building for Rs. 1,20,000 and issued to the vendors 10,000 fully paid shares and the balance Rs. 20,000 was paid in cash.

Pass Journal Entries and show the Balance Sheet.

Solution

## Statement of Issue of Shares

Instalments	No. of Appli. / Shares	Amount due	Amount received	Excess amount Refund Retained		Arrears	
				Rs.	Rs.		
Application ...	Rs. 2	60,000	1,00,000	1,20,000	8,000	12,000	Rs. ---
Allotment ...	Rs. 4	50,000	2,00,000	1,88,000	...	...	Rs. ---
First Call ...	Rs. 3	50,000	1,50,000	1,49,400	...	...	Rs. ---
Final Call ...	Rs. 1	50,000	50,000	49,800	...	...	Rs. 600
<b>Total ...</b>	<b>Rs. 10</b>		<b>5,00,000</b>	<b>5,07,200</b>	<b>8,000</b>	<b>12,000</b>	<b>Rs. ---</b>

Note: Excess of application money retained for allotment being Rs. 12,000, the arrears stands reduced by that amount.

600 shares were

		L. F.	Rs.
<b>Application</b>			
Bank A/c (60,000 × 2)	Dr.		1,20,000
To Share Application A/c			
(Being application money received)			
<b>Share Application A/c</b>			
To Share Capital A/c (50,000 × 2)	Dr.		1,20,000
To Bank A/c (4,000 × 2)			
To Share Allotment A/c (6,000 × 2)			
(Being transfer and refund of application money)			
<b>Allotment</b>			
Share Allotment A/c	Dr.		2,00,000
To Share Capital A/c			
(Being amount due on allotment)			
<b>Bank A/c</b>			
To Share Allotment A/c	Dr.		1,88,000
(Being amount received on allotment)			
<b>First Call</b>			
Share First Call A/c	Dr.		1,50,000
To Share Capital A/c			
(Being amount due on first call)			
<b>Bank A/c</b>			
To Share First Call A/c	Dr.		1,49,400
(Being amount received on first call)			
<b>Final Call</b>			
Share Final Call A/c	Dr.		50,000
To Share Capital A/c			
(Being amount due on final call)			
<b>Bank A/c</b>			
To Share Final Call A/c	Dr.		49,800
(Being amount received on final call)			

## Journal Entries [ Contd. ]

<b>Purchase</b>			
Buildings A/c	Dr.	1,20,000	1,20,000
To Vendor's A/c			
(Being purchase of buildings)			
<b>Vendor's A/c</b>			
To Share Capital A/c	Dr.	1,20,000	1,00,000
To Bank A/c			20,000
(Being payment of purchase price)			

## Balance Sheet as at ...

Liabilities	Rs.	Assets	Rs.
Authorised Capital :		Buildings	1,20,000
1,00,000 Equity Shares of		Cash at Bank	4,79,200
Rs. 10 each	10,00,000		
Issued and Paid up Capital :			
60,000 Equity Shares of			
Rs. 10 each	6,00,000		
Less Calls in arrears	800		
	5,99,200		
	5,99,200		5,99,200

## Illustration 5 [ Forfeiture and Re-issue of Shares ]

The Safari Ltd., issued 11,000 Equity Shares of Rs. 100 each, payable as follows -

On Application	... Rs. 20
On Allotment	... Rs. 30
On First Call	... Rs. 25
On Final Call	... Rs. 25

The company received applications for 10,000 shares. All the applications were accepted. The directors made both the calls.

One shareholder holding 100 shares failed to pay the final call. His shares were forfeited and reissued as fully paid at Rs. 90 per share.

Show Journal Entries and the Balance Sheet.



## Statement of Issue of Shares

Instalments	No. of Appli./ Shares	Amount due	Amount Received	Excess amount
		Rs.	Rs.	Rs.
Application ... Rs. 20	10,000	2,00,000	2,00,000	...
Allotment ... Rs. 30	10,000	3,00,000	3,00,000	...
First Call ... Rs. 25	10,000	2,50,000	2,50,000	...
Final Call ... Rs. 25	10,000	2,50,000	2,47,500	...
<b>Total ... Rs. 100</b>		<b>10,00,000</b>	<b>9,97,500</b>	...

## Journal Entries

Application		L. F.	Rs.
Bank A/c To Share Application A/c (Being application money received)	Dr.		2,00,000
Share Application A/c To Share Capital A/c (Application money transferred to capital)	Dr.		2,00,000
<b>Allotment</b>			
Share Allotment A/c To Share Capital A/c (Being amount due on share allotment)	Dr.		3,00,000
Bank A/c To Share Allotment A/c (Being amount received on allotment)	Dr.		3,00,000
<b>First Call</b>			
Share First Call A/c To Share Capital A/c (Being amount due on share first call)	Dr.		2,50,000

## Issue and Forfeiture of Shares

## Journal [ Contd. ]

		L. F.	Rs.	Rs.
Bank A/c To Share First Call A/c (Being amount received on share first call)	Dr.		2,50,000	2,50,000
<b>Final Call</b>				
Share Final Call A/c To Share Capital A/c (Being amount due on share final call)	Dr.		2,50,000	2,50,000
Bank A/c To Share Final Call A/c (Being amount received on share final call)	Dr.		2,47,500	2,47,500
<b>Forfeiture of 100 Shares</b>				
Share Capital A/c (100 × 100) To Shares Forfeited A/c (75 × 100) To Share Final Call A/c (25 × 100) (Being forfeiture of shares)	Dr.		10,000	7,500 2,500
<b>Re-issue of 100 Shares</b>				
Bank A/c (90 × 100) Shares Forfeited A/c (dis, 10 × 100) To Share Capital A/c (Being reissue of shares at discount)	Dr. Dr.		9,000 1,000	10,000
<b>Transfer of net gain</b>				
Shares Forfeited A/c To Capital Reserve A/c (Being profit on forfeiture transferred to capital reserve)	Dr.		6,500	6,500

## Balance Sheet as at ...

Liabilities	Rs.	Assets
Share Capital: 10,000 Equity Shares of Rs. 100 each	10,00,000	Cash at Bank
Capital Reserve	6,500	8,000
	<u>10,06,500</u>	

Note : The Shares Forfeited Account represents money received on forfeited shares. It is a Profit and not a normal trading profit. It is used to write off discount on reissue. Balance, if any, is transferred to Capital Reserve Account which is shown on the Balance Sheet.  
 Profit on forfeiture = Amount received on forfeited shares - Discount on reissue.

**Illustration 6 [Forfeiture of partly called up shares]**

The Bright Ltd. has an authorised capital of Rs. 2,50,000 in 25,000 Shares of Rs. 10 each.

The Company issued 4,000 shares as fully paid in payment of Rs. 10 each. 8,000 shares were subscribed for by the public and during the first call only Rs. 5 per share was called up, payable Rs. 2 on application, Rs. 3 on allotment, Re. 1 on first call and Re. 1 on second call. The amounts received in respect of these shares were as follows -

On 6,000 shares	Full amount
On 1,250 shares	Rs. 4 per share
On 500 shares	Rs. 3 per share
On 250 shares	Rs. 2 per share

The Directors forfeited the 750 shares on which less than Rs. 4 per share has been paid.

Give Journal Entries and prepare the company's Balance Sheet.

Solution

**Statement of Issue of Shares**

Instalments	Amount due	Amount received	Arrears
	Rs.	Rs.	Rs.
Application ... Rs. 2	(8,000×2) 16,000	(8,000×2) 16,000	
Allotment ... Re. 1	(8,000×1) 8,000	(7,750×1) 7,750	250
First Call ... Re. 1	(8,000×1) 8,000	(7,250×1) 7,250	750
Second Call ... Re. 1	(8,000×1) 8,000	(6,000×1) 6,000	2,000
...	40,000	37,000	3,000

**Journal of Bright Ltd.**

	L. F.	Rs.	Rs.
<b>Purchase of Buildings</b>			
Buildings A/c To Vendor's A/c ( Being purchase of buildings )	Dr.	40,000	40,000
Vendor's A/c To Share Capital A/c ( Issue of shares in payment of purchase price )	Dr.	40,000	40,000
<b>Application</b>			
Bank A/c To Share Application A/c ( Being application money received )	Dr.	16,000	16,000
Share Application A/c To Share Capital A/c ( Being application money transferred to capital )	Dr.	16,000	16,000
<b>Allotment</b>			
Share Allotment A/c To Share Capital A/c ( Being amount due on share allotment )	Dr.	8,000	8,000
Bank A/c To Share Allotment A/c ( Being amount received on allotment )	Dr.	7,750	7,750
<b>First Call</b>			
Share First Call A/c To Share Capital A/c ( Being amount due on first call )	Dr.	8,000	8,000
Bank A/c To Share First Call A/c ( Being amount received on first call )	Dr.	7,250	7,250
<b>Second Call</b>			
Share Second Call A/c To Share Capital A/c ( Being amount due on second call )	Dr.	8,000	8,000

Bank A/c To Share Second Call A/c ( Being amount received on second call )	Dr.	6,000
<b>Forfeiture of 500 Shares</b>		
Share Capital A/c To Shares Forfeited A/c To Share First Call A/c To Share Second Call A/c ( Being forfeiture of 500 shares )	( 5 × 500 ) Dr. ( 3 × 500 ) ( 1 × 500 ) ( 1 × 500 )	2,500
<b>Forfeiture of 250 Shares</b>		
Share Capital A/c To Shares Forfeited A/c To Share Allotment A/c To Share First Call A/c To Share Second Call A/c ( Being forfeiture of 250 shares )	( 5 × 250 ) Dr. ( 2 × 250 ) ( 1 × 250 ) ( 1 × 250 ) ( 1 × 250 )	1,250
<b>Transfer of Net Gain</b>		
<p>Note : The net gain on forfeited shares will be known only on their reissue. Since the forfeited shares have not been reissued, the question of transfer of net gain does not arise.</p>		

Note : On forfeiture, the share capital account is to be debited with amount 'called up' and not face value. The logic is: the amount credited to capital account so far is Rs. 5 and not Rs. 10.  
**Balance Sheet as at .....**

Liabilities	Rs.	Assets	
Share Capital : 4,000 Equity Shares of Rs. 10 each, fully paid ( issued to vendors )	40,000	Buildings	40,000
7,250 Equity Shares of Rs. 10 each, Rs. 5 per share called up	36,250	Cash at Bank	37,000
Less Calls in arrears	1,250		
	35,000		
Add Forfeited Shares A/c	2,000		
	37,000		
	77,000		

Note : The 1,250 shares have not been forfeited. Re. 1 per share is still due from them. These dues on calls are called calls in arrears.

**Illustration 7 [ Forfeiture - A typical case ]**

X holds 100 shares of Rs. 10 each on which he has paid Re. 1 per share as application money.

Y holds 200 shares of Rs. 10 each and has paid Re. 1 and Rs. 2 per share as application and allotment money, respectively.

Z holds 300 shares of Rs. 10 each and has paid Re. 1 on application, Rs. 2 on allotment and Rs. 3 for the first call.

They all fail to pay their arrears and the second call of Rs. 2 per share and the directors, therefore, forfeited their shares.

The above shares are re-issued as fully paid for Rs. 11 per share.

Draft Journal Entries.

**Solution**

**Journal Entries**

	L. F.	Rs.	Rs.
<b>Forfeiture of 100 Shares of ' X '</b>			
Share Capital A/c ( 8 × 100 )	Dr.	800	
To Shares Forfeited A/c ( 1 × 100 )			100
To Share Allotment A/c ( 2 × 100 )			200
To Share First Call A/c ( 3 × 100 )			300
To Share Second Call A/c ( 2 × 100 )			200
( Being forfeiture of X's shares )			
<b>Forfeiture of 200 Shares of ' Y '</b>			
Share Capital A/c ( 8 × 200 )	Dr.	1,600	
To Shares Forfeited A/c ( 3 × 200 )			600
To Share First Call A/c ( 3 × 200 )			600
To Share Second Call A/c ( 2 × 200 )			400
( Being forfeiture of Y's shares )			
<b>Forfeiture of 300 Shares of ' Z '</b>			
Share Capital A/c ( 8 × 300 )	Dr.	2,400	
To Shares Forfeited A/c ( 6 × 300 )			1,800
To Share Second Call A/c ( 2 × 300 )			600
( Being forfeiture of Z's shares )			
<b>Re-issue of 600 Shares</b>			
Bank A/c ( 11 × 600 )	Dr.	6,600	
To Share Capital A/c ( 10 × 600 )			6,000
To Share Premium A/c ( 1 × 600 )			600
( Being reissue of 600 shares )			