

*Notes***29**

REISSUE OF FORFEITED SHARES

You have learnt that a company may call share money in instalments. You have also learnt that if a shareholder fails to pay the allotment and/or call money, the company may forfeit such shares. If shares are forfeited the membership of the shareholder stands cancelled and the shares become the property of the company. Thereafter, the company has an option of selling such forfeited shares. The sale of forfeited shares is called ‘reissue of shares’.

In this lesson you will learn the meaning of ‘reissue of shares’ and its accounting treatment in the books of the company.



OBJECTIVES

After studying this lesson you will be able to:

- state the meaning of reissue of shares;
- state the minimum price at which a company can reissue its forfeited shares and
- give accounting treatment of reissue of shares in different situations.

29.1 REISSUE OF SHARES : MEANING AND ISSUE PRICE

Shares are forfeited because only a part of the due amount of such shares is received and the balance remains unpaid. On forfeiture the membership of the original allottee is cancelled. He/she cannot be asked to make payment of the remaining amount. Such shares become the property of the company. Therefore company may sell these shares. Such sale of shares is called ‘reissue of shares’. Thus reissue of shares means issue of forfeited shares.

Once the Board of directors has forfeited the shares, the defaulting share holder is asked to return the share certificate which is cancelled thereafter. The board of directors passes a resolution allotting the forfeited shares to the new purchaser/purchasers of such shares.

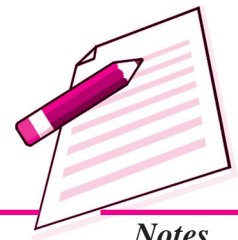
In case of reissue of shares neither a prospectus is issued nor any offer is otherwise made to the general public. Though the amount of such shares may be called in more than one instalment but usually the entire amount is called in one instalment i.e. lumpsum.

The board of directors of the company while reissuing the shares decide the price of reissue. These shares can be reissued at par, at premium or at discount. Generally, these shares are reissued at a discount i.e. at a price which is less than its nominal value. The amount of discount allowed at the time of reissue in no case should be more than the amount forfeited on such shares.

Question arises at what price the forfeited shares can be reissued? There is no limit of the price at which it can be reissued if price charged is more than the price of issue at the time of their forfeiture. But then there is a limit below which price cannot be charged or we can say that there is a minimum price below which the company cannot reissue its forfeited shares. We can look at it from another angle i.e. the company cannot give discount more than a particular amount while reissuing the forfeited shares.

The maximum permissible discount at the time of reissue of forfeited shares is ascertained in different situations in the following manner:

- (i) **Shares Originally Issued at Par :** When the shares are originally issued at par, the maximum permissible discount for reissue of shares is equal to the amount forfeited on such shares
- (ii) **Shares Originally Issued at Premium :** In case of shares originally issued at premium, there can be two situations : (a) premium has not been received on the forfeited shares, and (b) premium has been received on such shares. The amount forfeited is the amount that has been received including the amount of premium if it has been received and the maximum discount that can be allowed on reissue of such shares is the amount so forfeited.
- (iii) **Shares Originally Issued at Discount :** In this case the actual amount received becomes the forfeited amount. But the maximum permissible discount on reissue of shares will be equal to the amount forfeited plus the amount of discount initially allowed on these shares at the time of their original issue.



Notes



Notes



INTEXT QUESTIONS 29.1

Fill in the blanks with suitable word/words :

- (i) On forfeiture of shares the membership of the allottee is cancelled.
- (ii) Forfeited shares are the property of the
- (iii) When the shares are originally issued at par, the maximum permissible discount for reissue of shares is equal to the amount on such shares.
- (iv) In case shares are originally issued at premium the amount forfeited is the amount that has been received including the amount of that has been received.
- (v) On reissue of forfeited shares which were originally issued at discount, the permissible discount will be the amount forfeited plus the amount of originally allowed.

29.2 RECORDING OF REISSUE OF SHARES

Reissue of Forfeited Shares at a Discount

When the shares forfeited are reissued at discount, Bank account is debited by the amount received and Share capital account is credited by the paid up amount. The amount of discount allowed is debited to Share Forfeited Account. This is for adjusting the amount of discount so allowed from the amount forfeited at the time of forfeiture.

The journal entry for the above will be as follows:

| | |
|------------------------------------------------------|-----|
| Bank A/c (the amount received on reissue) | Dr. |
| Share Forfeited A/c (the amount allowed as discount) | Dr. |
| To Share Capital A/c (paid up amount) | |

As stated earlier the amount of discount allowed on reissue of shares at the most can be equal to the forfeited amount on such shares. In that case the share forfeited account after reissue will show a zero balance. But in case, this amount of discount is less than the amount forfeited, the remaining forfeited amount will be profit for the company. This profit is a capital gain to the company and is transferred to Capital Reserve account. Journal entry of the same will be as follows :

| | |
|---------------------------------------------------------------------|----|
| Share Forfeited A/c | Dr |
| To Capital Reserve A/c | |
| (Transfer of surplus share forfeited amount to capital reserve A/c) | |

If all the forfeited shares are reissued, the Share Forfeited A/c will show a zero balance because whole of the amount of this account after adjusting the amount of discount allowed on reissue will be transferred to capital reserve account. But in case, only a part of the forfeited shares are reissued and others remain cancelled, the amount forfeited on forfeited shares not reissued will remain in the Shares Forfeited Account. For adjustment of forfeited amount on share reissued will be calculated as :

Amount to be Adjusted =

$$\frac{\text{Total Forfeited Amount}}{\text{Total No. of Shares Forfeited}} \times \text{Number of Shares Reissued}$$



Notes



INTEXT QUESTIONS 29.2

Given below are certain statements. Write (C) against the correct statements and (I) against the incorrect statements:

- (i) Share forfeited account can show a zero balance.
- (ii) Discount allowed on reissue of forfeited shares will be debited to discount on issue of shares account.
- (iii) Balance amount of share forfeited account after adjusting discount allowed on reissue of these share remains in the same account

29.3 ACCOUNTING TREATMENT OF REISSUE OF FORFEITED SHARES

There can be four situations of reissue of forfeited shares. These are:

- (i) Reissue of forfeited shares at discount originally issued at par
- (ii) Reissue of shares at par or at premium, originally issued at par
- (iii) Reissue of forfeited shares at par, at discount and at premium originally issued at premium.
- (iv) Reissue of forfeited shares at par, at discount and at premium, originally issued at discount.

Accounting treatment in each of the above cases is discussed hereafter :

1. Reissue of forfeited shares issued at discount, originally issued at par

In this case the maximum discount that can be given on reissue of forfeited shares is the amount that has been received on these shares and is debited to share forfeited account.



Notes

Illustration 1

X company Ltd. forfeited 200 shares of ₹ 10 each, fully called up on which ₹ 7 have been received and final call of ₹ 3 per share remains unpaid. These shares were later on reissued for ₹ 8 per share fully paid up. Make journal entry for recording the forfeiture and reissue of shares.

Solution

Journal Entries

| Date | Particulars | L.F. | Dr. ₹ | Cr. ₹ |
|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|--------------|--------------|
| (i) | Share Capital A/c Dr. To Share Forfeited A/c To Share Final call A/c (Forfeiture of 200 shares of ₹ 10 each due to non payment of final call of ₹ 3 per share) | | 2,000 | 1,400 600 |
| (ii) | Bank A/c Dr. Share Forfeited A/c Dr. To Share capital A/c (Reissue of 200 forfeited shares of ₹ 10 each for ₹ 8 per share as fully paid up) | | 1,600 400 | 2,000 |
| (iii) | Share forfeited A/c Dr. To Capital Reserve A/c (The Balance amount in Share Forfeited A/c transferred to Capital Reserve A/c) | | 1,000 | 1000 |

2. Reissue of forfeited shares at premium and at par, originally issued at par

In this case the whole of the amount that has been credited to Shares Forfeited A/c is transferred to Capital Reserve A/c on the reissue of such shares.

Illustration 2

Y Ltd. forfeited 400 shares of ₹ 20 each, on which ₹ 15 per share have been received and balance remains due but not paid. These shares were reissued

- (a) at the rate of ₹ 20 per share i.e. at par
- (b) at the rate of ₹ 24 per share i.e. at premium

Make necessary journal entries for reissue of the shares

Solution :

Journal Entries

| Date | Particulars | L.F. | Dr. ₹ | Cr. ₹ |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------|------|----------|----------------|
| Case (a) | | | | |
| (i) | Bank A/c Dr. To Share Capital A/c (Reissue of 400 share at the rate of ₹ 20 per share) | | 8,000 | 8,000 |
| (ii) | Shares Forfeited A/c Dr. To Capital Reserve A/c (Balance amount of Share Forfeited A/c is transferred to Capital Reserve A/c) | | 6,000 | 6,000 |
| Case (b) | | | | |
| (i) | Bank A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c (Reissue of forfeited shares at premium) | | 9,600 | 8,000 1,600 |
| (ii) | Share Forfeited A/c Dr. To Capital Reserve A/c (Balance amount of Shares Forfeited A/c is transferred to Capital Reserve A/c) | | 6,000 | 6,000 |



In the above two illustrated cases, total amount forfeited on shares reissued is transferred to capital reserve because no discount has been given on reissue of these shares. Therefore, the whole of the amount forfeited is a gain for the company.

3. Reissue of forfeited shares at par, at discount and at premium, originally issued at premium :

If the shares were originally issued at premium, it is not necessary that their reissue after forfeiture is to be at premium. Such shares can be reissued at par, at discount or at premium.

If such shares are reissued at premium the premium received should be credited to Securities Premium A/c. Journal entry will be



Notes

Reissue of Forfeited Shares

Bank A/c Dr.
 (Number of shares × amount received per share)
 To Share Capital A/c
 (Number of shares × amount paid up per share)
 To Securities Premium Reserve A/c
 (Number of shares × amount of premium per share)

If such shares are reissued at par the amount that has been received and has been credited to share forfeited A/c will be credited to capital reserve A/c

If such shares are reissued at discount, the amount of discount allowed will be adjusted towards the amount credited to share forfeited A/c the balance amount of Share Forfeited A/c will be transferred to Capital Reserve A/c

Illustration 3

AZ Ltd. forfeited 200 shares of ₹ 10 each originally issued at a premium of ₹4 per share, the holder of which paid ₹ 3 per share on application but did not pay the allotment money of ₹ 7 per share (including premium) and call of ₹ 4 per share. Make necessary journal entries for the forfeiture and for reissue of these shares if :

- I. Reissued at ₹ 10 per share i.e. at par
- II. Reissued at ₹ 8 per share i.e. at discount
- III. Reissued at ₹ 12 per share i.e. at premium

Solution :

Journal Entries

| | <i>Particulars</i> | <i>L.F.</i> | <i>Dr.</i> ₹ | <i>Cr.</i> ₹ |
|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------------|---------------------|
| (i) | Share Capital A/c (200 × ₹ 10) Dr. Securities Premium Reserve A/c (200 × ₹ 4) Dr. To Share Forfeited A/c (200 × ₹ 3) To Share Allotment A/c (200 × ₹ 7) To Share First & Final Call A/c (200 × ₹ 4) (Forfeiture of 200 shares for non-payment of dues) | | 2,000 800 | 600 1,400 800 |

Case I

| | <i>Particulars</i> | <i>L.F.</i> | <i>Dr.</i> ₹ | <i>Cr.</i> ₹ |
|------|--------------------------------------------------------------------------------------------------------------------------|-------------|-----------------|-----------------|
| (i) | Bank A/c Dr. To Share Capital A/c (Reissue of 200 forfeited shares reissued at par) | | 2,000 | 2,000 |
| (ii) | Share Forfeited A/c Dr. To Capital Reserve A/c (Share Forfeited A/c balance is transferred to Capital Reserve A/c) | | 600 | 600 |



Notes

As the forfeited shares have been reissued at par therefore no discount is allowed on these shares at the time of their reissue. Therefore the full forfeited amount of ₹ 600 is a gain for the company which is transferred to Capital Reserve A/c

Case II

| | <i>Particulars</i> | <i>L.F.</i> | <i>Dr.</i> ₹ | <i>Cr.</i> ₹ |
|------|-------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------------|-----------------|
| (i) | Bank A/c Dr. Share Forfeited A/c Dr. To Share Capital (Reissue of 200 forfeited shares reissued at discount) | | 1,600 400 | 2,000 |
| (ii) | Share Forfeited A/c Dr. To Capital Reserve A/c (Balance amount of Shares Forfeited A/c is transferred to Capital Reserve A/c) | | 200 | 200 |

At the time of reissue of forfeited shares a discount of ₹ 2 per share is allowed so the total amount of discount of ₹ 400 is adjusted from the forfeited amount of ₹ 600 and the balance amount of ₹ 200 is transferred to Capital Reserve A/c being a capital gain.



Notes

Case III

| | <i>Particulars</i> | <i>L.F.</i> | <i>Dr.</i> ₹ | <i>Cr.</i> ₹ |
|------|-------------------------------------------------------------------------------------------------------------------------|-------------|-----------------|-----------------|
| (i) | Bank A/c To Share Capital A/c To Securities Premium Reserve A/c (200 forfeited shares reissued at premium) | Dr. | 2,400 | 2,000 400 |
| (ii) | Share Forfeited A/c To Capital Reserve A/c (Balance amount of Share Forfeited A/c transferred to Capital Reserve) | Dr. | 600 | 600 |

As the forfeited shares have been issued at a premium so no amount of discount is there to be adjusted from the forfeited amount hence the total forfeited amount of ₹ 600 is transferred to capital Reserve A/c as capital gain of the company.

4. Reissue of forfeited shares at par, premium and discount, originally issued at discount

When the forfeited shares originally issued at discount are reissued, the discount allowed at the time of original issue of such shares which was written back at the time of their forfeiture is again allowed. Thus on forfeiture shares Discount A/c is credited by the amount of discount allowed at the time of issue because its effect is to be cancelled out when shares were forfeited. When the same shares are reissued, discount on issue of shares A/c is again debited by the original amount of discount.

Illustration 4

India infrastructure Ltd. has issued its shares of ₹ 20 each at a discount of ₹2 per share. Mahima holding 100 shares did not pay final call of ₹ 5 per share. Her shares were forfeited. Later on the company reissued these forfeited shares at (I) ₹ 15 per share (II) ₹ 20 per share, and (III) ₹ 25 per share

Make journal entries for the forfeiture and reissue of the shares in the books of company.

Solution :

Journal Entries

| | <i>Particulars</i> | <i>L.F.</i> | <i>Dr.</i> ₹ | <i>Cr.</i> ₹ |
|--|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------------|---------------------|
| | Share Capital A/c Dr. To Share Forfeited A/c To Discount on Issue of Shares A/c To Share Final Call A/c (Forfeiture of 100 shares issued at discount for non payment of final call) | | 2,000 | 1,300 200 500 |



Reissue of shares: Reissued at ₹ 15 per share

| | <i>Particulars</i> | <i>L.F.</i> | <i>Dr.</i> ₹ | <i>Cr.</i> ₹ |
|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|--------------------|-----------------|
| I. | (i) Bank A/c Dr. Discount on Issue of Shares A/c Dr. Share Forfeited A/c Dr. To Share Capital A/c (100 shares reissued at ₹ 15 per share) | | 1500 200 300 | 2,000 |
| | (ii) Share Forfeited A/c Dr. To Capital Reserve A/c (Balance in share Forfeited A/c of 100 shares reissued transferred to Capital Reserve A/c) | | 1,000 | 1,000 |
| II. | Bank A/c Dr. To Share Capital A/c (100 shares reissued at ₹ 20 per share) | | 2,000 | 2,000 |
| | Share Forfeited A/c Dr. To Capital Reserve A/c (Balance in shares forfeited A/c transferred to Capital Reserve A/c) | | 1,300 | 1,300 |

MODULE - 5

Company Accounts



Notes

Reissue of Forfeited Shares

| | | | | |
|------|----------------------------------------------------------------------|-----|-------|-------|
| III. | Reissued at ₹ 25 per share | | | |
| | Bank A/c | Dr. | 2,500 | |
| | To Share Capital A/c | | | 2,000 |
| | To Securities Premium Reserve A/c | | | 500 |
| | (Reissue of discounted shares at ₹ 25 per share) | | | |
| | Shares Forfeited A/c | Dr. | 1,300 | |
| | To Capital Reserve | | | 1,300 |
| | (Balance in shares forfeited A/c transferred to capital Reserve A/c) | | | |

Reissue of a Part of the Forfeited Shares

Sometimes all the forfeited shares are not reissued but a part of them are reissued. The accounting treatment is explained by the following illustration.

Illustration 5

A company forfeited 40 shares of ₹ 50 each on which only application money of ₹ 10 per share and ₹ 20 on allotment were received. Final call of the ₹ 20 per share is not received 30 of these shares are reissued at ₹ 40 per share. Make journal entries for forfeiture and Reissue of forfeited shares.

Solution :

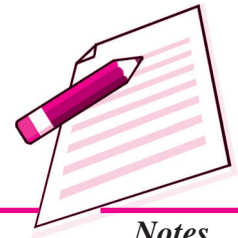
Journal Entries

| | Particulars | L.F. | Dr. ₹ | Cr. ₹ |
|--|----------------------------------------------------------------------------|------|----------|----------|
| | Share Capital A/c | Dr. | 2,000 | |
| | To Share Forfeited A/c | | | 1,200 |
| | To Share First and Final Call A/c | | | 800 |
| | (40 shares forfeited for non payment of call) | | | |
| | Bank A/c | Dr. | 1,200 | |
| | Share Forfeited A/c | Dr. | 300 | |
| | To Share Capital A/c | | | 1,500 |
| | (30 of the forfeited shares are reissued) | | | |
| | Share forfeited A/c | Dr. | 600 | |
| | To Capital Reserve A/c | | | 600 |
| | (Balance of forfeited A/c of 30 shares transferred to capital Reserve A/c) | | | |

**INTEXT QUESTIONS 29.3**

How much amount will be credited to Capital Reserve A/c in the following cases :

- (i) 100 shares of ₹ 10 each forfeited for non payment of call of ₹ 3 per share reissued at ₹ 7 per share.
- (ii) 200 shares of ₹ 10 each forfeited on which ₹ 8 per share have been called and only ₹ 2 per share have been paid are reissued at ₹ 9 per share fully paid up.
- (iii) 100 shares of ₹ 20 each issued at a discount of ₹ 2 per share have been forfeited for non payment of first call of ₹ 4 and final call of ₹ 5 per share. These shares are reissued at ₹ 15 per share fully paid up.

*Notes***WHAT YOU HAVE LEARNT**

- Reissue of shares means sale of shares which were issued earlier but had been forfeited for non payment of called up amount.
- Shares are reissued to realise at least the amount called but remained unpaid on forfeited shares
- The amount of shares reissued is generally called in one instalment
- Shares can be reissued at par, at discount and at premium
- The maximum permissible discount for reissue of shares is equal to the amount forfeited on these shares
- The forfeited amount is utilised to adjust the amount of discount allowed on reissue of shares
- The balance amount of share forfeited account is a capital gain of the company and is transferred to Capital Reserve A/c

**TERMINAL EXERCISE**

1. Give the meaning of 'reissue of shares'.
2. What is the maximum permissible discount at the time of reissue of forfeited shares when the forfeited shares originally issued are (a) at par (b) at premium (c) at discount?



Notes

3. What amount is transferred to Capital Reserve A/c after reissue of forfeited shares? Why is this account transferred to capital reserve A/c?
4. Make journal entries for forfeiture and reissue of shares in the following cases:
 - (a) The directors of X Ltd. forfeited 400 shares of ₹ 10 each fully called up on which ₹ 2400 have been received. 300 of these shares were reissued upon payment of ₹ 2500
 - (b) Real Estate Developers Ltd. forfeited 500 shares of ₹ 10 each held by Amarjeet Singh which were issued at a premium of ₹ 3 per share to be paid along with allotment money. He paid only application money of ₹ 3 per share. 200 of these shares were reissued at ₹ 10 per shares
 - (c) Royal Enterprises Ltd. forfeited 200 shares of ₹ 10 each issued at a discount of 10%, on which only ₹ 4 per share have been paid. Out of these 100 shares have been reissued at ₹ 7 per share.
5. Make journal entries
 - (a) P Ltd. issued 400 shares of ₹ 10 each to Suresh on which he has paid ₹ 3 per share on application but failed to pay allotment money of ₹ 3 per share and first call money of ₹ 2 per share. His shares were forfeited before making the final call. These shares were later on reissued at ₹ 8 per share fully paid up.
 - (b) A company issued 10000 shares of ₹ 100 each at a premium of ₹ 20 per share, payable as ₹ 20 on application, ₹ 60 including premium on allotment, ₹ 20 each on two calls. Final call was not made. Pinky holding 200 shares did not pay allotment money and on her non payment of first call, her shares were forfeited by the board of the directors of the company. 150 of these shares were reissued at ₹ 120 per share fully paid up.
6. Joy Entertain Ltd. issued 100000 shares of ₹ 10 each at a premium of ₹ 2 per share. The amount was payable as :
 - ₹ 3 per share on application
 - ₹ 5 (including premium) on allotment
 - ₹ 2 per share on first call and
 - ₹ 2 per share on final call

Applications were received for 150,000 shares. All applications were accepted and allotment was made on a prorata basis. Sushil, who was allotted 1,000 shares, failed to pay allotment money. On his subsequent failure of first call, his shares were forfeited.

Gomang, who had applied for 750 shares, failed to pay the two calls. His shares were also forfeited. All the shares of Sushil and 200 shares of Gomang were reissued at a discount of ₹ 2 per share. Make journal entries in the books of the company and open necessary ledger accounts.

7. 21st Century Cotton Mills Ltd was registered with a capital of ₹ 10,00,000 divided into 1 lakh shares of ₹ 10 each. 50,000 shares were offered to the public for subscription at a discount of ₹ 1 per share. The amount was payable as ₹ 5 per share on application and allotment and ₹ 4 per share on call.

Applications were received for 48,000 shares. Call was made and money was duly received except on 1,000 shares. These shares were forfeited.

800 of the forfeited shares were reissued at ₹ 12 per share.

Make journal entries in the books of the company. Prepare the Balance sheet also.

*Notes***ANSWERS TO INTEXT QUESTIONS**

29.1 (i) original (ii) company (iii) forfeited (iv) premium (v) discount

29.2 (i) C (ii) C (iii) I

29.3 (i) 400 (ii) ₹ 200 (iii) 300

**ANSWERS TO TERMINAL EXERCISE**

4. (a) Capital Reserve ₹ 1,300 (b) Capital Reserve ₹ 600
(c) Capital Reserve ₹ 200

5. (a) Capital Reserve ₹ 400 (b) Capital Reserve ₹ 3,000

6. Capital Reserve ₹ 3,300

7. Capital Reserve ₹ 4,000