


LESSON-28 FORFEITURE OF SHARES

SUMMARY

Sometimes some shareholders fail to pay the called up amount in full i.e., they do not pay on one or more instalments after the allotment of the shares to them. In such a case either the company can go to the court and file a suit against the defaulting shareholders for recovery of the due amount or can cancel the membership of the defaulting shareholders. In case the membership is cancelled, the amount paid by the defaulting members towards share capital stands forfeited. It is called 'Forfeiture of Shares.'

MEANING AND PROCEDURE


When a shareholder is deprived of his/her membership due to non-payment of calls, it is known as forfeiture of shares. The result

of forfeiture of shares is 

- Cancellation of membership of the shareholder.
- Reduction of issued share Capital of the company.

ACCOUNTING TREATMENT

1. Forfeiture of Shares Issued at Par

When shares issued at par are forfeited the accounting treatment will be as follows 


- Debit Share Capital Account with amount called up (whether received or not) per share up to the time of forfeiture.
- Credit Share Forfeited A/c. with the amount received up to the time of forfeiture.
- Credit 'Unpaid Calls A/c' with the amount due on forfeited shares. This cancels the effect of debit to such calls which take place when the amount is made due.


2. Forfeiture of Shares Allotted on Pro-rata Basis

In case the shares being oversubscribed one of the scheme of allotment of shares to applicants is to allot in the ratio of shares for which applications are entertained by the company for allotment and the number of shares company has offered for subscription. This is called allotment of shares on pro-rata basis.

FORFEITURE OF SHARES ISSUED AT PREMIUM AND AT DISCOUNT


Forfeiture of Shares Issued at Premium

In case shares are issued at premium and thereafter forfeited there can be two situations 

- Premium on shares has been received prior to the forfeiture 

If the amount of premium on shares forfeited has been received by the company prior to the forfeiture, securities Premium A/c will not get affected. In this case the journal entry of forfeiture of shares will be similar to the entry made as if the shares had been issued at par.

- Amount of premium on shares has not been received and it still stands credited to the Securities Premium

A/c. 

When a share is forfeited on which the amount of premium has been made due but has not been received, either wholly or partially, the Securities Premium A/c will be cancelled. At the time of making due, Securities Premium A/c will be credited.

Forfeiture of Shares Issued at Discount

When shares issued at a discount are forfeited for nonpayment of dues, the discount allowed on such shares is written back. At the time of issue of shares, Discount on issue of Shares A/c is debited and when forfeited, this account is credited to cancel the discount allowed on such shares.