

1. Details of Module and its structure

Module Detail	
Subject Name	Accountancy
Course Name	Accountancy 04 (Class XII, Semester – 2)
Module Name/Title	Accounting for Share Capital – Securities Premium Reserve, Forfeiture & Re-issue of Shares – Part 4
Module Id	leac_20104
Pre-requisites	Knowledge of Procedure of Recording Issue of Shares in case of Full Subscription and Under Subscription
Objectives	After going through this lesson, the learners will be able to: <ul style="list-style-type: none">• outline the accounting for forfeiture of shares and reissue of forfeited shares under varying situations..• workout the amounts to be transferred to capital reserve when forfeited shares are reissued; and prepare share forfeited account.
Keywords	Uses of Securities Premium; Section 52; Issue at Discount; Forfeiture; Re-issue of shares.

2. Development Team

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Table of Content:

- 1. Uses of Securities Premium Reserve**
- 2. Issue of Shares at Discount**
- 3. Issue of Shares for Consideration other than Cash**
- 4. Forfeiture of Shares**
 - 4.1 Forfeiture of Shares Issued at Par**
 - 4.2 Forfeiture of Shares Issued at Premium**
- 5. Re-issue of Shares**

1. Uses of Securities Premium Reserve

Securities Premium received along the instalment of shares is credited to a separate account called 'Securities Premium Account'.

- It is shown in the 'Equity and Liabilities' side of the company's Balance Sheet
- Under the head 'Reserves and Surplus'.

As per Sec. 52 of Companies Act 2013, amount standing to the credit of Securities Premium Reserve can be used only for the following five purposes:

- a) To issue fully paid bonus shares to the extent not exceeding unissued share capital of the company;
- b) To write-off preliminary expenses of the company;
- c) To write-off the expenses of, or commission paid, or discount allowed on any securities of the company; and
- d) To pay premium on the redemption of preference shares or debentures of the company.
- e) Purchase of its own shares (i.e., buy back of shares).

2. Issue of Shares at a Discount

There are instances when the shares of a company are issued at a discount, i.e. at an amount less than the nominal or par value of shares, the difference between the nominal value and issue price representing discount on the issue of shares.

For example, when a share of the nominal value of Rs. 100 is issued at Rs. 98, it is said to have been issued at a discount of two per cent.

As a general rule, a company cannot ordinarily issue shares at a discount.

- It can do so only in cases such as 'REISSUE OF FORFEITED SHARES' and
- In case of Issue of Sweat Equity Shares.

3. Issue of Shares for Consideration other than Cash

There are instances where a company enters into an arrangement with the vendors from whom it has purchased assets, whereby the latter agrees to accept, the payment in the form of fully paid shares of the company issued to them.

Normally, no such cash is received for issue of shares. These shares can also be issued either at par or at premium and the number of shares to be issued will depend upon the price at which the shares are issued and the amount payable to the vendor.

The number of shares to be issued to the vendor will be calculated as follows:

$$\text{Number of shares to be issued} = \text{Amount Payable} / \text{Issue Price}$$

Example, Rahul Limited purchased building from Handa Limited for Rs.5,40,000 and the payment is to be made by the issue of shares of Rs.100 each. The number of shares to be issued shall be worked out as follows in different situations:

(a) WHEN SHARES ARE ISSUED AT PAR, i.e. at Rs.100

$$\begin{aligned} \text{Number of shares to be issued} &= \frac{\text{Amount Payable}}{\text{Issue Price}} \\ &= \text{Rs. } 5,40,000 / \text{Rs. } 100 \\ &= 5,400 \text{ shares} \end{aligned}$$

(B) When shares issued at premium of 20%, i.e. at Rs. 120 (100 + 20)

$$\begin{aligned} \text{Number of shares to be issued} &= \text{Amount Payable} / \text{Issue Price} \\ &= \text{Rs. } 5,40,000 / \text{Rs. } 120 \\ &= 4,500 \text{ shares} \end{aligned}$$

The journal entries recorded for the shares issued for consideration other than cash in above situations will be as follows :

Date	Particulars	L.F	Dr (Rs.)	Cr (Rs.)
	Building A/c Dr. To Handa Limited (Building purchased)		5,40,000	5,40,000
(a)	When shares are issued at par Handa Limited Dr. To Share Capital A/c (5,400 Shares issued at par)		5,40,000	5,40,000
(b)	When shares are issued at premium of 20% Handa Limited Dr. To Share Capital A/c To Securities Premium Reserve A/c (4,500 shares issued at Rs.120 per share)		5,40,000	4,50,000 90,000

Illustration 1

Jindal and Company purchased a machine from High Life Machine Limited for Rs.3,80,000. As per purchase agreement, Rs. 20,000 were paid in cash and balance by issue of shares of Rs.100 each. What will be the entries passed if the shares are issued :

- (a) at par
- (b) at 20% premium

Solution:

Number of shares will be calculated as follows:

(a) When shares issued at par

$$\text{Rs. } 3,60,000 / \text{Rs. } 100 = 3,600 \text{ shares}$$

(b) When shares issued at premium

$$\text{Rs. } 3,60,000 \text{ shares} / \text{Rs. } 120 = 3000 \text{ shares}$$

Books of Jindal and Company

Journal

Date	Particulars	L.F	Dr (Rs.)	Cr (Rs.)
	Machine A/c Dr. To Bank A/c To High Life Machine Limited (Machine purchased and Rs. 20,000 paid in cash and the balance paid by issue of share)		3,80,000	20,000 3,60,000
(a)	When shares are issued at par High Life Machine Limited Dr. To Share Capital A/c (3,600 Shares are Rs.100 each)		3,60,000	3,60,000
(b)	When shares are issued at premium High Life Machine Limited Dr. To Share Capital A/c To Securities Premium Reserve A/c (3,000 shares issued at Rs.120 per share)		3,60,000	3,00,000 60,000

4. Forfeiture of Shares

It may happen that some shareholders fail to pay one or more instalments, viz. allotment money and/or call money. In such circumstances, the company can forfeit their shares, i.e. cancel their allotment and treat the amount already received thereon as forfeited to the company within the framework of the provisions in its articles.

These provisions are usually based on Table F, which authorise the directors to forfeit the shares for non-payment of calls made.

For this purpose, they have to strictly follow the procedure laid down in this regard.

Following is the accounting treatment of shares issued at par or at premium. When shares are forfeited all entries relating to the shares forfeited except those relating to premium, already recorded in the accounting records must be reversed. Accordingly, share capital account is debited with the amount called-up in respect of shares are forfeited and crediting the respective unpaid calls accounts's or calls in arrears account with the amount already received. Thus, the journal entry will be as follows:

4.1 Forfeiture of Shares issued at Par:

Share Capital A/c.....(Called up amount) Dr.

 To Share Forfeiture A/c.....(Paid up amount)

To Share Allotment A/c
 To Share Calls A/c (individually)
 (..... shares forfeited for non-payment of allotment money and calls made)

It may be noted here that when the shares are forfeited, all entries relating to the forfeited shares must be reversed except the entry relating to share premium received, if any.

Accordingly, the share capital is debited to the extent to called-up capital and credited to

- (a) Respective unpaid calls account i.e., calls in arrears and
- (b) Share forfeiture account with the amount already received on shares.

The balance of Shares Forfeited Account is shown as an addition to the total Paid-Up Capital of the company under the head 'Share Capital' under title 'Equity and Liabilities' of the Balance Sheet till the forfeited shares are reissued.

Illustration 2

Honda Limited issued 10,000 equity shares of 100 each payable as follows: Rs. 20 on application, Rs. 30 on allotment, Rs. 20 on first call and Rs. 30 on second and final calls 10,000 shares were applied for and allotted. All money due was received with the exception of both calls on 300 shares held by Supriya. These shares were forfeited. Give necessary journal entries.

Solution:

Books of Honda Limited
 Journal

Date	Particulars	L.F	Dr (Rs.)	Cr (Rs.)
	Bank A/c Dr. To Share Application A/c (Application money on 10,000 shares @Rs.20 per share received)		2,00,000	2,00,000
	Share Application A/c Dr. To Share Capital A/c (Application money transferred to share capital)		2,00,000	2,00,000
	Share Allotment A/c Dr. To Share Capital A/c (Money due on allotment of 10,000 shares @Rs. 30 per share)		3,00,000	3,00,000
	Bank A/c Dr.		3,00,000	

	To Share Allotment A/c (Allotment Money received on 10,000 shares @ Rs. 30 per share on)			3,00,000
	Share First Call A/c Dr. To Share Capital A/c (Money due on 10,000 shares @ Rs. 20 per share on I st Call.)		2,00,000	2,00,000
	Bank A/c Dr. To Share First Call A/c (First call money received except for 300 shares)		1,94,000	1,94,000
	Share Second and Final Call A/c Dr. To Share Capital A/c (Money due on 10,000 shares @ Rs. 30 per share on Second and Final Call)		3,00,000	3,00,000
	Bank A/c Dr. To Share Second and Final Call A/c (Second and Final Call money received except for 300 shares)		2,91,000	2,91,000
	Share Capital A/c Dr. To Share First Call A/c To Share Second and Final Call A/c To Share Forfeiture A/c (300 shares Forfeited)		30,000	6,000 9,000 15,000

4.2 Forfeiture of Shares issued at a Premium:

If shares were initially issued at a premium and the premium amount has been fully realised, but some of the shares are forfeited due to non-payment of call money, the accounting treatment for forfeiture shall be on the same pattern as in the case of shares issued at par.

The important point to be noted in this context is that the securities premium account is not to be debited at the time of forfeiture if the premium has been received in respect of the forfeited shares and the amount of forfeiture shall be excluding premium amount.

In case, however, if the premium amount has not been received, either wholly or partially, in respect of the shares forfeited, the Securities Premium Reserve Account will also be debited with the amount of premium not received along with the Share Capital Account at the time forfeiture. This will usually be the case when even the amount due on allotment has not been received.

Thus, the journal entry to record the forfeiture of shares issued at a premium on which premium has not been fully received, will be :

Share Capital A/c Dr.

Securities Premium Reserve A/c Dr.

To Share Forfeiture A/c

To Share Allotment A/c

and/or

To Share Calls A/c (individually)

(..... shares forfeited for non-payment of allotment money and calls made)

Note: If Calls in Arrears Account is maintained, Calls in Arrears Account is credited and not the Share Allotment and/or Share Call/Calls Accounts.

Illustration 3

Sahil, a share holder, failed to pay the money for second and final call of Rs. 20 on 1,000 shares issued to him at Rs. 120 (face value of Rs. 100 per share). His shares were forfeited after the second and final call. Give the necessary journal entry for forfeiture of the shares.

Solution:

Date	Particulars	L. F	Dr (Rs.)	Cr (Rs.)
	Share Capital A/c Dr.		1,00,000	
	To Share second and Final Call A/c			20,000
	To Share Forfeiture A/c			80,000
	(Forfeiture of 1,000 shares for non-payment of the second and final call)			

Illustration 4

High Light India Ltd. invited applications for 30,000 Shares of Rs. 100 each at a premium of Rs. 20 per share payable as follows:

On Application Rs. 40 (including Rs.10 premium)

On Allotment Rs. 30 (including Rs.10 premium)

On First Call Rs. 30

On Second and Final Call Rs. 20

Applications were received for 40,000 shares and pro-rata allotment was made on the application for 35,000 share. Excess application money was utilized towards allotment.

Rohan to whom 600 shares were allotted failed to pay the allotment money and his shares were forfeited immediately after allotment. Aman who applied for 1,050 shares failed to pay first call and his share were forfeited immediately after first Call. Second and final call was made. All the money due on second call have been received. Of the shares forfeited, 1,000 share were reissued as fully paid-up for Rs. 80 per share, which included the whole of Aman's shares. Record necessary journal entries in the books of High Light India Ltd.

Solution:

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Date	Particulars	L.F	Dr (Rs.)	Cr (Rs.)
	Bank A/c Dr. To Share Application A/c (Application money received on 40,000 shares)		16,00,000	16,00,000
	Share Application A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c To Share Allotment A/c (Application money transferred to share capital account, securities premium account and the excess money transferred to share allotment account)		14,00,000	9,00,000 3,00,000 2,00,000
	Share Application A/c Dr. To Bank A/c (Amount returned on 500 shares)		2,00,000	2,00,000
	Share Allotment A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c (Money due on allotment)		9,00,000	6,00,000 3,00,000
	Bank A/c Dr. To Share Allotment A/c (Amount received in allotment)		6,86,000	6,86,000
	Share Capital A/c Dr. Securities Premium Reserve A/c Dr. To Share Allotment A/c To Share Forfeiture A/c (Forfeiture of 600 shares of Rohan for non-payment of allotment money)		30,000 6,000	14,000 22,000
	Share First Call A/c Dr.		8,82,000	

	To Share Capital A/c (First Call money due on 29,400 shares @Rs,30 per share)			8,82,000
	Bank A/c Dr. To Share First Call A/c (First call money received on 28,500 shares)		8,55,000	8,55,000
	Share Capital A/c Dr. To Share First Call A/c To Share Forfeiture A/c (Forfeiture of 900 Aman Shares)		72,000	27,000 45,000
	Share Second and Final Call A/c Dr. To Share Capital A/c (Second and Final Call money due on 28,500 shares)		5,70,000	5,70,000
	Bank A/c Dr. To Share Second and Final Call A/c (Due money received)		5,70,000	5,70,000
	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Reissue of 1,000 forfeited shares)		80,000 20,000	1,00,000
	Share Forfeiture A/c Dr. To Capital Reserve (Profit on 1,000 reissued shares transferred to capital reserve)		18,333	18,333

Working Notes:

(I) Excess amount received on Rohan's application

Rohan has been allotted = 600 Shares

He must have applied for

$\text{Rs. } 35,000 / \text{Rs. } 30,000 \times 600 = 700 \text{ Shares}$

	Rs.
Amount received from Rohan = $700 \times \text{Rs. } 40$	28,000
Amount Adjusted on Application = $600 \times \text{Rs. } 40$	(24,000)
Amount Adjusted on Allotment	<u>4,000</u>
Money due on Allotment = $600 \times \text{Rs. } 30$	18,000
Money Adjusted	(4,000)
Balance due on Allotment	<u>14,000</u>

(II) Amount received on Allotment

Total Amount due on Allotment = Rs. 30,000 × Rs. 30	= 9,00,000
Amount received on Application	<u>(2,00,000)</u>
	7,00,000
Amount not received on Rohan's Share	(14,000)
	6,86,000

(III) Money received on First Call

First Call money due on 29,400 shares 29,400 × Rs. 30	= 8,82,000
Application money not received on 900 Shares 900 × Rs. 30	<u>(27,000)</u>
	8,55,000

(IV) 1000 shares have been reissued including 900 shares of Aman and Balance 100 shares of Rohan

Profit on 100 shares = $\times 22,000/600 \times 100$	= 3,667
Profit in 900 shares	= <u>45,000</u>
	48,667
Less: Loss on reissue of 1,000 shares	<u>(20,000)</u>
	28,667

(V) Balance in Share Forfeiture Account of 500 shares

Rs. $\times 22,000/600 \times 500$	= Rs. 18,333
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5. Re-issue of Forfeited Shares

The directors can either cancel or re-issue the forfeited shares. In most cases, they reissue such shares which may be at par, at premium or at a discount.

Forfeited shares may be reissued as fully paid at a par, premium, discount. In this context, it may be noted that the amount of discount allowed cannot exceed the amount that had been received on forfeited shares at the time of initial issue, and that the discount allowed on reissue of forfeited shares should be debited to the 'Forfeited Share Account'.

The balance, if any, left in the Share-Forfeited Account relating to reissued Shares, should be treated as capital profit and transferred to Capital Reserve Account. For example, when a company forfeits 200 shares of Rs. 10 each on which Rs. 600 had been received, it can allow maximum discount of Rs. 600 on their reissue. Assuming that the company reissues these shares for Rs. 1,800 as fully paid, the necessary journal entry will be:

Date	Particulars	L.F	Dr. (Rs.)	Cr. (Rs.)
1.	Bank A/c Dr.		1,800	
	Share Forfeiture A/c Dr.		200	
	To Share Capital A/c			2,000

	(Reissue of 200 forfeited shares at Rs. 9 per share as fully paid)			
2.	Share Forfeiture A/c Dr. To Capital Reserve (Profit on reissue of forfeited shares transferred)		400	400

Another important point to be noted in this context is that the capital profit arises only in respect of the forefited share reissued, and not on all forefeited shares. Hence, when a part of the forfeited shares are reissued, the whole balance of share forfeiture account cannot be transferred to the capital reserve. In such a situation, it is only the proportionate amount of balance that relates to the forefeited shares reissued which should be transferred to capital reserve,

ensuring that the remaining balance in share forefeiture account is proportionate to the amount forefeited on shares not yet reissued.

Illustration 5

The director of Poly Plastic Limited resolved that 200 equity shares of Rs.100 each be forfeited for non-payment of the second and final call of Rs.30 per share. Out of these, 150 shares were re-issued at Rs.60 per share to Mohit. Show the necessary journal entries .

Solution:

Books of Poly Plastic Limited

Journal

Date	Particulars	L.F	Dr (Rs.)	Cr (Rs.)
	Share Capital A/c Dr. To Shares Forfeiture A/c To Share Second and Final Call A/c (200 shares forfeited for non-payment of final call at Rs.30 per share)		20,000	14,000 6,000
	Bank A/c Dr. Shares Forfeiture A/c Dr. To Share Capital A/c (Reissue of 150 shares of Rs.100 each, issued as fully paid for Rs.60 each)		9,000 6,000	15,000
	Shares Forfeiture A/c Dr. To Capital Reserve A/c (Profit on reissue of 150 forfeited shares transferred to capital reserve)		4,500	4,500

Working Notes:

	Rs.
Total amount forfeited on 200 shares	= 14,000 (200 shares × Rs. 70)
Amount forfeited on 150 shares	= 10,500 (150 shares × Rs. 70)
Amount of loss on reissue of 150 shares	= 6,000 (150 shares × Rs. 40)
Amount of profit on reissued shares transferred to capital reserve = 4,500	(Rs. 10,500 – Rs.6,000)
Amount forfeited on 50 shares	= 3,500 (50 shares × Rs. 70)
Balance left in share forfeited account	= 3,500
(Equal to amount forfeited on 50 shares)	(Rs.14,000 – Rs. 6,000– Rs.
4,500)	