**25**

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.



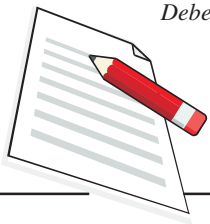
OBJECTIVES

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;
- give accounting treatment of reissue of shares in different situations.

25.1 REISSUE – MEANING AND ISSUE PRICE OF SHARES

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.

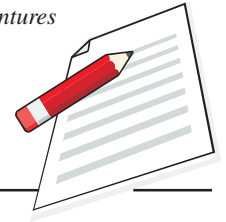
Question arises at what price the forfeited shares can be reissued? There is no limit of the price at which it can be reissued if price charged is more than the price of issue at the time of their forfeiture. But then there is a limit below which price cannot be charged or we can say that there is a 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.



INTEXT QUESTIONS 25.1



Notes

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.

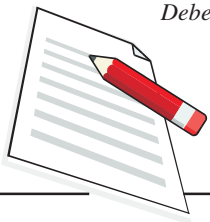
25.2 RECORDING OF REISSUE OF SHARES

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 :



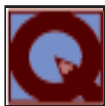
Share Forfeited A/c Dr
 To Capital Reserve A/c

(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

$$= \frac{\text{Total Forfeited amount}}{\text{Total No. of shares forfeited}} \times \text{Number of shares reissued}$$



INTEXT QUESTIONS 25.2

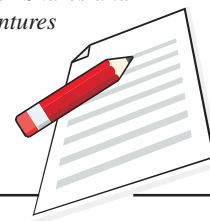
Given below are certain statements. Write (C) against the correct statements and (I) against the incorrect statements:

- (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

25.3 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.

Illustration 1

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

Solution

Journal Entries

Date	Particulars	Amount Rs	Amount Rs
(i)	Share Capital A/c Dr To Shares Forfeited A/c To Shares Final call A/c (Forfeiture of 200 shares of Rs. 10 each due to non payment of final call of Rs 3 per share)	2000	1400 600
(ii)	Bank A/c Dr Shares Forfeited A/c Dr To Share capital A/c (Reissue of 200 forfeited shares of Rs 10 each for Rs. 8 per share as fully paid up)	1600 400	2000
(iii)	Shares forfeited A/c Dr To Capital Reserve A/c (The Balance amount in Share Forfeited A/c transferred to Capital Reserve A/c)	1000	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.

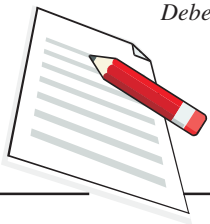


Illustration 2

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

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

Make necessary journal entries for reissue of the shares

Solution

Journal Entries

Case (a)

- (i) Bank A/c Dr 8000
 To Share Capital A/c 8000
 (Reissue of 400 share at the rate of Rs 20 per share)
- (ii) Shares Forfeited A/c Dr 6000
 To Capital Reserve A/c 6000
 (Balance amount of Share Forfeited A/c is transferred to Capital Reserve A/c)

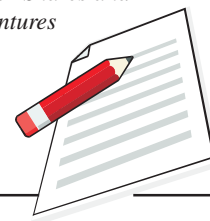
Case (b)

- (b) Bank A/c Dr 9600
 To Share Capital A/c 8000
 To Securities Premium A/c 1600
 (Reissue of forfeited shares at premium)
- Share Forfeited A/c Dr 6000
 To Capital Reserve A/c 6000
 (Balance amount of Shares Forfeited A/c is transferred to Capital Reserve A/c)

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.



Notes

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

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

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

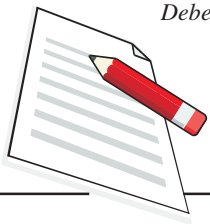
Solution :

Journal entries

(i) Share Capital A/c (200 × Rs 10)	Dr	2000	
Securities Premium A/c (200 × Rs 4)	Dr	800	
			To Share Forfeited A/c (200 × Rs 3) 600
			To Share Allotment A/c (200 × Rs 7) 1400
			To Share First & Final Call A/c (200 × Rs 4) 800
(Forfeiture of 200 shares for non-payment of dues)			

MODULE - 5

Accounting for Shares and
Debentures



Notes

Reissue of Forfeited Shares

Case I.

(i) Bank A/c	Dr	2000	
To Share Capital A/c			2000

(Reissue of 200 forfeited shares reissued at par)

(ii) Share Forfeited A/c	Dr	600	
To Capital Reserve A/c			600

(Share Forfeited A/c balance is transferred to Capital Reserve A/c)

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 Rs 600 is a gain for the company which is transferred to Capital Reserve A/c

Case II

(i) Bank A/c	Dr	1600	
Shares Forfeited A/c	Dr	400	
To Share Capital			2000

(Reissue of 200 forfeited shares reissued at discount)

(ii) Shares Forfeited A/c	Dr	200	
To Capital Reserve A/c			200

(Balance amount of Shares Forfeited A/c is transferred to Capital Reserve A/c)

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

Case III

(i) Bank A/c	Dr	2400	
To Share Capital A/c			2000
To Securities Premium A/c			400

(200 forfeited shares reissued at premium)

(ii) Share Forfeited A/c	Dr	600	
To Capital Reserve A/c			600

(Balance amount of Share Forfeited A/c transferred to Capital Reserve).

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

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

Solution :

Journal Entries

Share Capital A/c	Dr	2000	
To Shares Forfeited A/c			1300
To Discount on Issue of Shares A/c			200
To Shares Final Call A/c			500

(Forfeiture of 200 shares issued at discount for non payment of final call)

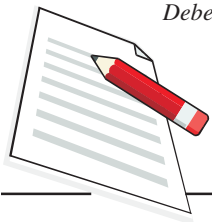
Reissue of shares: Reissued at Rs 15 per share

I. (i) Bank A/c	Dr	1500	
Discount on Issue of Shares A/c	Dr	200	
Shares Forfeited A/c	Dr	300	
To Share Capital A/c			2000
(100 shares reissued at Rs 15 per share)			
(ii) Shares Forfeited A/c	Dr	1000	
To Capital Reserve A/c			1000

(Balance in share Forfeited A/c of 100 shares reissued transferred to Capital Reserve A/c)

MODULE - 5

Accounting for Shares and
Debentures



Notes

Reissue of Forfeited Shares

II.	Bank A/c	Dr	2000	
	To Share Capital A/c			2000
	(100 shares reissued at Rs 20 per share)			
	Shares Forfeited A/c	Dr	1300	
	To Capital Reserve A/c			1300
	(Balance in shares forfeited A/c transferred to Capital Reserve A/c)			
III.	Reissued at Rs. 25 per share			
	Bank A/c	Dr	2500	
	Discount on issue of share A/c	Dr	200	
	To Share Capital A/c			2000
	To Securities Premium A/c			700
	(Reissue of discounted shares at Rs 25 per share)			
	Shares Forfeited A/c	Dr	1300	
	To Capital Reserve			1300
	(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 400 shares of Rs 50 each on which only application money of Rs 10 per share and Rs 20 on allotment were received. Final call of the Rs 20 per share is not received. 300 of these shares are reissued at Rs 40 per share. Make journal entries for forfeiture and Reissue of shares.

Solution :

Journal entries

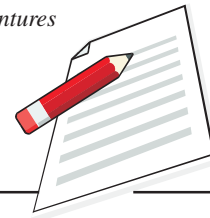
Date	Particulars	L.F	Dr Amount Rs	Cr Amount Rs
	Share Capital A/c	Dr.	2000	
	To Share Forfeited A/c			1200
	To Share First and Final Call A/c			800
	(400 shares forfeited for non payment of call)			

Reissue of Forfeited Shares

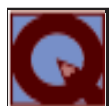
Bank A/c	Dr.		1200	
Share Forfeited A/c	Dr.		300	
To Share Capital A/c (300 of the forfeited shares are reissued)				1500
Share forfeited A/c	Dr.		600	
To Capital Reserve A/c (Balance of forfeited A/c of 300 shares transferred to capital Reserve A/c)				600

MODULE - 5

Accounting for Shares and
Debentures



Notes



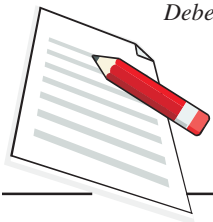
INTEXT QUESTIONS 25.3

- I. How much amount will be credited to Capital Reserve A/c in the following cases?
- 100 shares of Rs 10 each forfeited for non payment of call of Rs. 3 per share reissued at Rs. 7 per share.
 - 200 shares of Rs 10 each forfeited on which Rs 8 per share have been called and only Rs 2 per share have been paid are reissued at Rs. 9 per share fully paid up.
 - 100 shares of Rs. 20 each issued at a discount of Rs 2 per share have been forfeited for non payment of first call of Rs 4 and final call of Rs. 5 per share. So, These shares are reissued at Rs 15 per share.



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

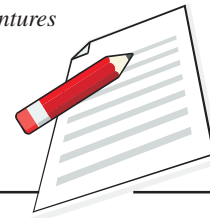


Notes



TERMINAL QUESTIONS

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?
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 Rs 10 each fully called up on which Rs 2400 have been received. 300 of these shares were reissued upon payment of Rs. 2500
 - (b) Real Estate Developers Ltd. forfeited 500 shares of Rs. 10 each held by Amarjeet Singh which were issued at a premium of Rs. 3 per share to be paid along with allotment money. He paid only application money of Rs 3 per share. 200 of these shares were reissued at Rs. 10 per shares
 - (c) Royal Enterprises Ltd. forfeited 200 shares of Rs. 10 each issued at a discount of 10%, on which only Rs.4 per share have been paid. Out of these 100 shares have been reissued at Rs 7 per share.
5. Make journal entries
 - (a) P Ltd. issued 400 shares of Rs. 10 each to Suresh on which he has paid Rs. 3 per share on application but failed to pay allotment money of Rs 3 per share and first call money of Rs 2 per share. His shares were forfeited before making the final call. These shares were later on reissued at Rs 8 per share fully paid up.
 - (b) A company issued 10000 shares of Rs 100 each at a premium of Rs 20 per share, payable as Rs 20 on application, Rs 60 including premium on allotment, Rs 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 Rs 120 per share fully paid up.
6. Joy Entertain Ltd. issued 100000 shares of Rs 10 each at a premium of Rs 2 per share. The amount was payable as :
 - Rs 3 per share on application
 - Rs 5 (including premium) on allotment
 - Rs 2 per share on first call and
 - Rs 2 per share on final call



Applications were received for 150000 shares. All applications were accepted and allotment was made on prorata basis. Sushil who was allotted 1000 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 too were forfeited. All the shares of Sushil and 200 shares of Gomang were reissued at a discount of Rs 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 Rs 1000000 divided into 1 lakh shares of Rs 10 each. 50000 shares were offered to public for subscription at a discount of Rs 1 per share. The amount was payable as Rs 5 per share on application and allotment and Rs 4 per share on call.

Applications were received for 48000 shares. Call was made and money was duly received except on 1000 shares. These shares were forfeited. 800 of forfeited shares were reissued at Rs 12 per share.

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

**ANSWERS TO INTEXT QUESTIONS****Intext Questions 25.1**

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

Intext Questions 25.2

- (i) C (ii) C (iii) I

Intext Questions 25.3

- (i) 400 (ii) Rs 200 (iii) 300

Answers to Practical Terminal Questions

4. (a) Capital Reserve Rs 1300 (b) Capital Reserve Rs 600 (c) Capital Reserve Rs 200
5. (a) Capital Reserve Rs 400 (b) Capital Reserve Rs 3000
6. Capital Reserve Rs 1800
7. Capital Reserve Rs 4000