

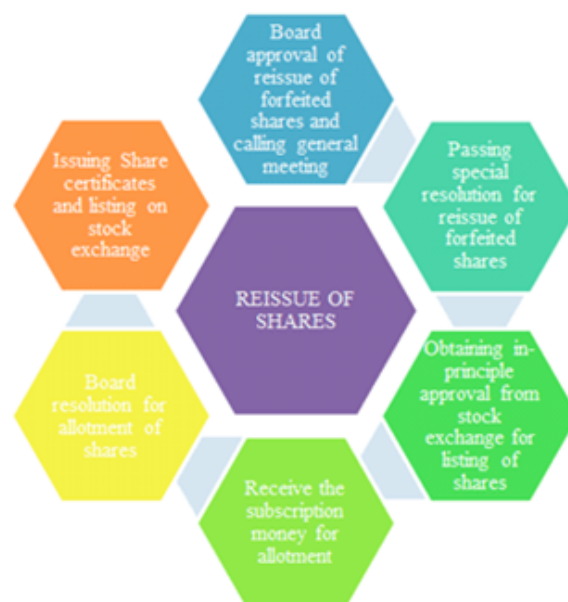
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## Accounting: Reissue of Forfeited Shares: Accounting Treatment, Reissue of Forfeited Shares Issued at Discount and Premium

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Company offers shares to general public in order to raise huge capital either in single payment or different installments. Shareholders are supposed to pay the amount of allotted shares money as per installment schedule. If they fail to pay the amount of allotted money or call money company may cancel the membership of shareholders after sending a notice to the members. This is called forfeiture of shares. Then forfeited shares become property of the company and the company can reissue those forfeited shares to general public again. Selling of these forfeited shares is called ' Reissue of forfeited shares.



### Reissue of Forfeited Shares

After forfeiting of shares defaulters are supposed to return the certificate of shares. Then the Board of Directors will pass a resolution to resale the forfeited shares to new purchasers. Board will decide the new price of reissue of shares. These shares can be reissued at par value, at premium value or at discount. There is no restriction on amount of premium for reissue of shares. But, to reissue shares there is restriction on amount of discount a company can offer.

Maximum permissible discount at the time of reissue of forfeited shares in different cases

**Shares originally issued at par:** Maximum permissible discount for reissue of shares is equal to the amount forfeited on such shares.

**Shares originally issued at premium:** There are two cases for issue of shares at premium. One is premium has not been received on the forfeited shares and another one is premium has been received on such shares. The amount of forfeited received is the amount including premium. If it has been received, then the maximum discount that can be allowed is the amount so forfeited.

**Shares originally issued at discount:** The actual amount received becomes the forfeited amount. Maximum permissible discount is equal to the sum of amount forfeited and amount of discount initially allowed at the time of original issue.

## Accounting Treatment of Reissue of Forfeited Shares

There are four different situations in which reissue can take place. 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.

### Reissue of Forfeited Shares Issued at Discount, Originally Issued at Par

If the reissue is at discount, Bank account will be debited by the amount received and Share capital account will be credited by the paid-up amount. The allowed discount will be debited to Share Forfeited Account. Journal Entry:

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)	

Maximum permissible discount for reissue of shares is equal to the amount forfeited on such shares. So, Share Forfeited A/c after reissue will become zero balance. But, if the amount of discount is less than forfeited amount then the remaining forfeited amount will be profit for the company and it will be transferred to Capital Reserve Account. Journal Entry:

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

**Example:** 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

S. No.	Particulars	L. F	Amount (₹)	
			Dr.	Cr.
1.	Share Capital A/c Dr.		2000	1400

	To Share Forfeited A/c			600
	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.	Bank A/c Dr. Shares Forfeited A/c Dr. To Share Capital A/c. (Reissue of 200 shares @ ₹ 8 per share)		1600 400	2000
3.	Share 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
Table of Journal Entries				

**Note:** If all forfeited shares are reissued then Share Forfeited A/c will be zero after the transfer of share forfeited amount to Capital Reserve A/c. But in case, only part of forfeited shares are reissued and the remaining forfeited shares are cancelled then the remaining amount will be in Share Forfeited A/c only. In this case amount needs to be adjusted.

$$\text{Amount to be adjusted} = \frac{\text{Total Forfeited Amount}}{\text{Total No. of Shares forfeited}} \times \text{Number of shares reissued}$$

### Reissue of Forfeited Shares at Premium and at Par, Originally Issued at Par

In this case the total amount received on reissue of shares that has been credited to Share Forfeited A/c will be transferred to Capital Reserve A/c. Because no discount is given on reissue.

#### Example:

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:

### Case (a)

(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)

(i) Bank A/c	Dr	9600	
To Share Capital A/c			8000
To Securities Premium A/c			1600
(Reissue of forfeited shares at premium)			
(ii) 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)			