



Question 10. Explain the term 'Forfeiture of Shares' and give the accounting treatment on forfeiture.

Answer: If a shareholder fails to pay the allotment money and or any call money on his shares as called upon by the directors, his shares may be forfeited by the directors, if they are so authorised by the Articles of Association. This is known as forfeiture of shares. As per the Table A of the Company Act, the procedure of forfeiting shares is mentioned below.

- (i) A notice is sent to default shareholder stating him/her to pay calls-in-arrears along with the interest accrued on the outstanding calls money within a period of 14 days of the receipt of notice, otherwise, the shares will be forfeited.
- (ii) If the shareholder does not pay the amount, then the company has the right to forfeit his/her share by passing a resolution.
- (iii) A notice of that resolution is sent to the default shareholder and a public notice of the same is published in a daily newspaper.
- (iv) The name of the shareholder is removed from the register of members (i.e., shareholders).

Accounting Treatment for Forfeiture of Shares

(i) Forfeiture of Shares that were Issued at Premium

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Share Capital A/c Dr		(Amount Called-up)	
	To Share Allotment A/c (Not Received)			
	To Share Calls A/c (Not Received)			
	To Share Forfeiture A/c (Amount Received)			
	(Being shares forfeited on non-payment of allotment or call money)			

(ii) Forfeiture of Shares that were Issued at Premium

(a) Sometimes forfeited shares would have been issued at premium in that case if amount of premium is received than premium received is not shown.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Share Capital A/c Dr		(Amount Called-up)	
	To Share Allotment A/c (Not Received)			
	To Share Calls A/c (Not Received)			
	To Share Forfeiture A/c (Amount Received)			
	(Being shares forfeited on non payment of allotment or call money)			

(b) Sometimes forfeited shares would have been issued at premium in that case if amount of premium is not received than premium not received is shown.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Share Capital A/c Dr		(Total Amount Called-up)	
	Share Premium A/c Dr		(Premium Amount Called-up)	
	To Share Allotment A/c (Not Received)			
	To Share Calls A/c (Not Received)			
	To Share Forfeiture A/c (Amount Received)			
	(Being shares forfeited on non payment of allotment or call money)			

(iii) Forfeiture of shares that were issued at discount Sometimes forfeited shares would have been issued at discount in that case amount of discount will always be shown.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Share Capital A/c Dr		(Total Amount Called-up)	(Discount Amount)
	To Discount on Issue of Shares A/c			
	To Share Allotment A/c (Not Received)			
	To Share Calls A/c (Not Received)			
	To Share Forfeiture A/c (Amount Received)			
	(Being shares forfeited on non payment of allotment or call money)			

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