



**INSTITUTE OF LAW, JIWAJI UNIVERSITY, GWALIOR**  
**COURSE - B.COM LL.B FIVE YEAR**  
**SEMESTER – II**  
**SUBJECT – ACCOUNTS AND FINANCE -II**  
**UNIT – 1 – FORFEITURE OF SHARES PART-1**

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# FORFEITURE OF SHARES

If a shareholder fails to pay the allotment money and/or calls made on him, his shares are liable to be forfeited. Forfeiture of shares may be said to be the compulsory termination of membership by way of penalty for non payment of allotment and/or any call.

The Companies Act does not contain any specific provisions regarding forfeiture. The directors must follow certain procedure for forfeiting the shares. They have to give notice to the defaulting shareholder calling upon him to pay the amount due from him together with interest before a specified date (not being earlier than the expiry of fourteen days from the date of service of the notice). This notice must also state that if the shareholder fails to pay the amount along with interest due within the specified date, the shares will be forfeited.

The effect of forfeiture of shares is that the defaulting shareholder loses all his rights in the shares and ceases to be a member. The name of the shareholder is removed from the Register of Members and the amount already paid by him is forfeited. He is not entitled in future to dividends and the rights of membership . However, the directors have the right to cancel such forfeiture before the forfeiture shares are re-issued. Forfeited shares account is to be shown in the balance sheet by way of addition to the paid-up share capital on the 'liabilities' side, until the concerned shares are reissued.

## Accounting Entries on Forfeitures of Shares

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graph TD; A[Accounting Entries on Forfeitures of Shares] --> B[Issued at Par]; A --> C[Issued at A Premium]
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Issued at Par

Issued at A Premium

# Forfeiture of Shares Issued at Par

## JOURNAL ENTRIES

The forfeiture of shares can be recorded in two ways:

**1. Where the unpaid calls have already been transferred to Calls-in-Arrear A/c and the respective call accounts have been closed:**

Share Capital A/c	Dr.	(with the amount of called up value of shares forfeited i.e. no. of shares forfeited x the called up value per share.)
To Shares Forfeited A/c		(with the amount already paid-up by the shareholders on the shares forfeited.)
To Calls-in-Arrear A/c		(with the amount of unpaid calls.)

**OR**

**2. Where the unpaid calls have not been transferred to Calls-in-Arrear A/c and the respective call accounts are showing balances representing unpaid amounts:**

Share Capital A/c	Dr.	(with the amount of called up value of shares forfeited i.e., no. of shares forfeited x the called up value per share.)
To Shares Forfeited A/c		(with the amount already paid up by the shareholders on the shares forfeited.)
To Share Allotment A/c		(with the amount failed on allotment, if any.)
To Share First Call A/c		(with the amount failed on first call, if any.)
To Share Final Call A/c		(with the amount failed on final call, if any.)

***THANK YOU!!***