

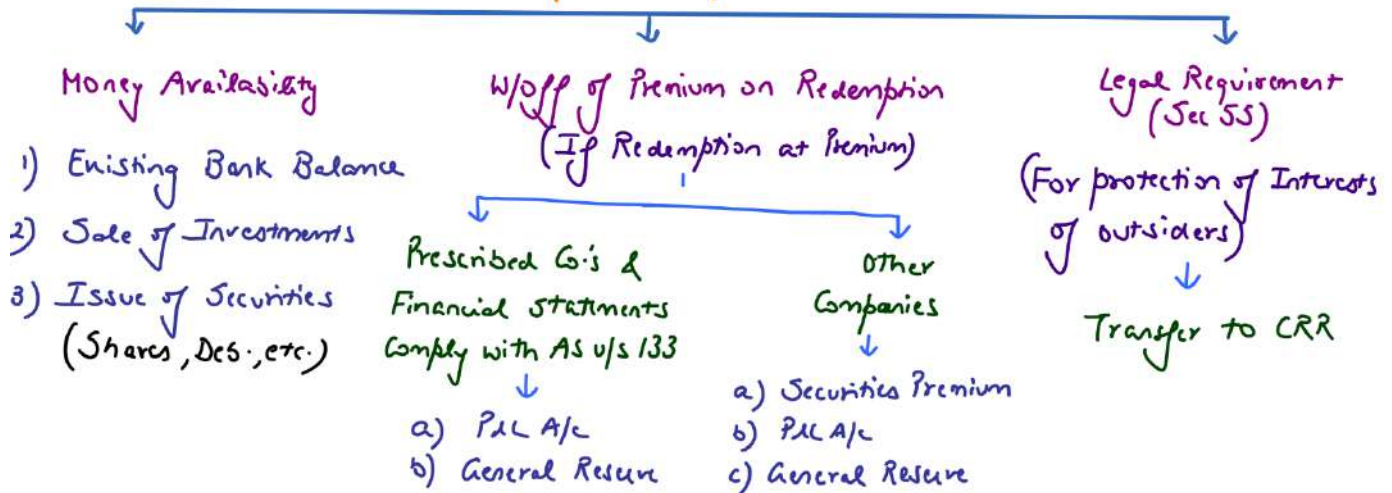
REDEMPTION OF PREFERENCE SHARES

(Repayment of Capital back to Preference Shareholders at agreed rate)

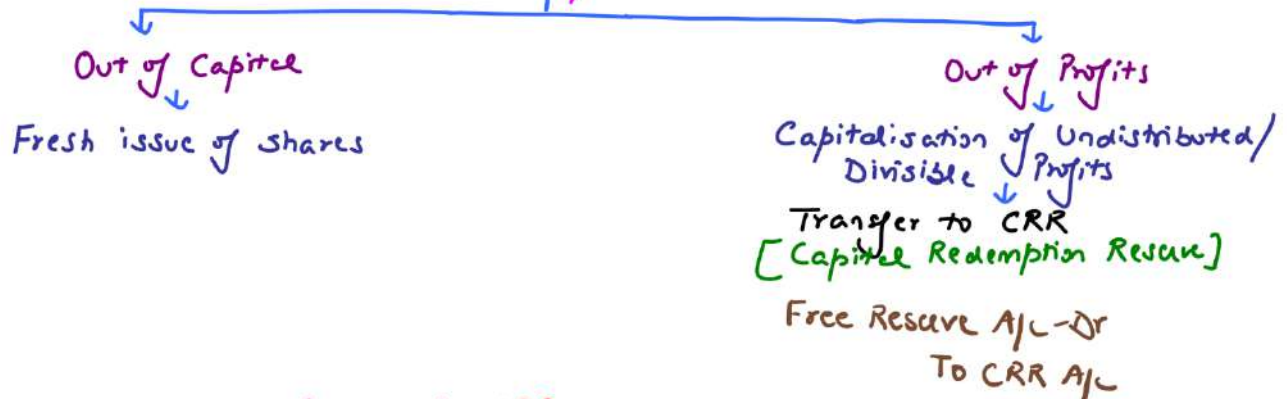
Conditions for Redemption:

- 1) Authorised by Articles of Association
- 2) Shares to be fully paid up before redemption

Important Aspects



Redemption



Amount to be transferred to CRR:

Nominal value of Preference Shares to be redeemed	xx
- Nominal value of Fresh Shares Issued	(xx)
	<u>xx</u>

Free Reserve: Those which are available for distribution of dividend.
Eg: General Reserve, Revenue Reserve, P/L/Surplus A/c, etc.

CRR: It can be utilised for issuing fully paid bonus shares.
It cannot be utilised for writing off losses/preliminary expenses.

ACCOUNTING ENTRIES FOR REDEMPTION OF PREFERENCE SHARES

	Transaction	Journal Entries
1.	Calling unpaid portion of Preference Share Capital	Redeemable Preference Share Final Call A/c Dr. To Redeemable Preference Share Capital A/c
2.	Receipt of Final Call Amount	Bank A/c Dr. To Redeemable Preference share final call A/c
3.	Fresh issue of Share Capital for the purpose of redemption	Bank A/c Dr. To Share Capital A/c (at Face value) To Securities Premium A/c (if at premium)
4.	Sale of Investments for raising funds for redemption	Bank A/c Dr. Profit and loss A/c (if sold at a loss) Dr. To Investment A/c To Profit and loss A/c (if sold at profit)
5.	Transfer of preference shares capital and premium on redemption of preference share capital(if any), to preference shareholders A/c	Redeemable Preference Share Capital A/c Dr. Premium on Redemption of Pref. Share Dr. To Preference shareholders A/c
6.	Transfer to capital redemption reserve account	General Reserve A/c Dr. Profit and Loss A/c Dr. Other divisible profits A/c Dr. To Capital Redemption Reserve A/c
7.	Writing off Premium payable on Redemption of Preference share	Profit and Loss A/c Dr. General Reserve A/c Dr. To Premium on Redemption of Preference shares A/c
8.	Making Payment to Preference shareholders	Preference shareholders A/c Dr. To Bank A/c

Question

The following are the extracts from the Balance Sheet of X Ltd. as on 31st December, 2020.

Share capital:

60,000 Equity shares of Rs.10 each fully paid – Rs. 6,00,000; 5,000 10% Redeemable preference shares of Rs. 100 each fully paid – Rs.5,00,000.

Reserve & Surplus:

Capital reserve – Rs. 75,000; Securities premium – Rs. 75,000; General reserve – Rs. 70,000; Profit and Loss Account – Rs. 1,50,000

On 1st January 2020, the Board of Directors decided to redeem the preference shares at premium of 10% by utilisation of reserve.

It was decided by the company to issue the following:

- (i) 40,000 Equity Shares of Rs. 10 each at 2 premium
- (ii) 2,000 12% Debentures of Rs. 100 each.

You are required to pass Journal Entries in the books of the company.

Solution

In the books of X Limited Journal Entries

No.	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
1	Bank A/c Dr.		4,80,000	
01.01.20	To Equity Share Capital A/c			4,00,000
	To Securities Premium A/c			80,000

	(Being the issue of 40,000 equity shares of Rs. 10 each at premium as per Board's resolution No.....dated.....)			
2	Bank A/c Dr.		2,00,000	
	To 12% Debentures A/c			2,00,000
	(Being the issue of 2,000 Debentures of Rs. 100 each as per Board's Resolution No.....dated.....)			
3	10% Redeemable Preference Share Capital A/c Dr.		5,00,000	
	Premium on Redemption of Preference shares A/c Dr.		50,000	
	To Preference Shareholders A/c			5,50,000
	(Being amount payable on redemption of preference shares transferred to Preference Shareholders A/c)			
4	Preference Shareholders A/c Dr.		5,50,000	
	To Bank A/c			5,50,000
	(Being the amount paid on redemption of preference shares)			
5	General Reserve A/c Dr.		70,000	
	Profit & Loss A/c Dr.		30,000	
	To Capital Redemption Reserve A/c			1,00,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			
6	Profit & Loss A/c Dr.		50,000	
	To Premium on Redemption of Pref. Shares A/c			50,000
	(Being premium on redemption charged to Profit and Loss A/c)			

Amount to be transferred to CRR:

Nominal Value of preference shares to be redeemed =	5,00,000
Less: Nominal Value of shares issued =	(4,00,000)
Amount =	<u>1,00,000</u>

Note: Proceeds of fresh issue of equity shares can be used for the purpose of redemption of preference shares but not the proceeds of issue of debentures

Note: Securities premium & capital reserve cannot be utilized for transfer to Capital Redemption Reserve

CASES:

Case 1: Condition on Reserves

Preference Share Capital Rs. 65,000 Premium on Redemption 10%.

Free Reserves 48,000. P&L balance to be maintained 15,000

Find equity shares to be issued FV= 50 each issued at a premium of 13 each.

Maximum Amount to be transferred to CRR

$$\Rightarrow 48000 - 15000 - 6500 \Rightarrow 26500$$

Value of Equity Shares to be issued

$$\Rightarrow 65000 - 26500 \Rightarrow 38500$$

No. of Equity Shares

$$\Rightarrow \frac{38500}{50} = 770 \text{ shares}$$

If FV = 45 & not 50

$$\text{No. of Equity Shares} \Rightarrow \frac{38500}{45} = 855.55$$

ie. 856 shares

Multiple of 10 :

Multiple of 50 :

Multiple of 100 :

Case d: Condition on Bank

Preference Share Capital Rs. 2,00,000 Premium on Redemption 10%.

Existing bank balance 20,000. Investment sold for 27,500.

Minimum Bank Balance to be maintained 15,000.

Find equity shares to be issued FV = 10 each issued at 25% premium.

Bank A/c

To Bal b/d	20000	By Preference Shareholders	220000
To Investments (Sale)	27500	(200000 + 10%)	
To ESC & Sec. Prem. (B.p.)	187500	By Bal c/d	15000

Alternatively

$$15000 + 220000 - 20000 - 27500 = 187500$$

Balance Due to Existing Balance
Required PSH Inv.

$$\text{No. of Equity Shares} = \frac{187500}{12.50} = 15000 \text{ shares}$$

Transfer to CRR $\Rightarrow 200000 - 150000$
 $\Rightarrow 50000$

Partly Paid up Preference shares

Case 1:

Only 1 class of Preference Shares given

E.g: 1000, 13% Pref. shares of 100 each, 80 paid up

- * Receive pending call of 20/share
- * Redeem all the Preference shares

Case 2:

2 classes of Preference shares given

1 Fully paid up & 1 Partly paid up & Q is silent which one to redeem

E.g. a) 1000, 12% Pref. sh. of 100 each fully paid up
 b) 5000, 9% Pref. sh. of 100 each, 80 paid up
 Redeem the Preference shares.

- * Redeem only those which are fully paid up
- * Partly paid up shares not to be redeemed & will continue as such.

Preference Shareholders not Traceable

- * Make Full Payment Due
- * Pay only those which are traceable
- * Comply with Sec 55 in respect of full Preference shares

Example: 1000, 12% Preference shares of 100 each fully paid up
 To be redeemed at 10% Premium
 60 PSH not traceable

Journal Entries

No.	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
1	12% Redeemable Preference Share Capital A/c Dr.		1,00,000	
	Premium on Redemption of Preference shares A/c Dr.		10,000	
	To Preference Shareholders A/c			1,10,000
	(Being amount payable on redemption of preference shares transferred to Preference Shareholders A/c)			
2	Preference Shareholders A/c Dr.		1,03,400	
	To Bank A/c			1,03,400
	(Being the amount paid to preference shareholders which are traceable)			
3	General Reserve/P&L A/c Dr.		1,00,000	
	To Capital Redemption Reserve A/c			1,00,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			
4	Profit & Loss A/c Dr.		10,000	
	To Premium on Redemption of Pref. Shares A/c			10,000
	(Being premium on redemption charged to Profit and Loss A/c)			

Calls in Arrears

B/s

Preference Share Capital

10000 sh. of 100 each fully called up	1000000
- calls in Arrears (500 sh. @ 20 each)	(10000)
	<u>990000</u>

Case 1: Calls in Arrears paid by shareholders

Bank A/c - Dr

To Calls in Arrears A/c

→ Redeem 10000 shares thereafter

Case 2: Redeem the good ones & forfeit the defaulters

Prey. Share Capital A/c - Dr.

To Calls in Arrears A/c

To Sh. F.F. A/c

Share F.F. A/c - Dr.

To Capital Reserve A/c

Case 3: Redeem the good ones & defaulters will continue to appear in B/s

B/s

Preference Share Capital

500 sh. of 100 each fully called up	50000
- calls in Arrears (500 X 20)	(10000)
	<u>40000</u>