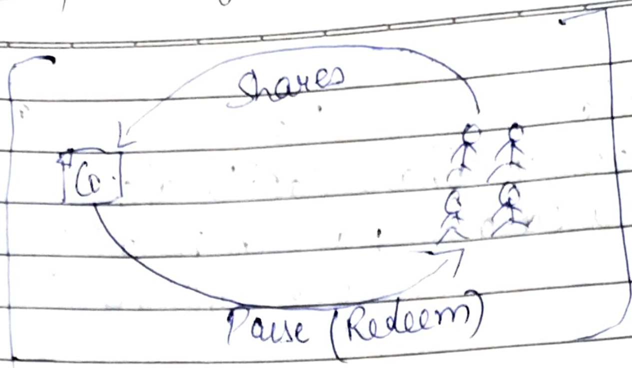
Redemption of Preference Shares



Liability over ✓

P.S.C a/c Dr 100
To Bank 100

asset कम

⇒ Preference shares are of two types :-

(a) Redeemable preference shares (जिनके पैसे वापस करने हैं।)
(b) Irredeemable preference shares ⇒ Not allowed

⇒ Preference shares can be redeemed out of :-

Profits	Fresh issue of shares (Not debentures)	Combination of (i) & (ii)

→ Accounting (Journal Entries)

(i) Bank a/c Dr xxx
P&L a/c (Loss) Dr xxx
To Investment a/c xxx
To P&L a/c (gain) xxx
(Being Investment sold)

(ii) Bank a/c Dr xx
To Share capital a/c xx
To Securities premium) xx
(New Shares issued if any)

(iii) % Redemable preference share capital a/c Dr (face value)
Premium on Redemption a/c Dr (if any)
To preference share holder a/c xxx

(iv) Preference shareholder a/c Dr xxx
To Bank a/c xxx

(v) Securities premium a/c Dr xxx
Free reserves a/c Dr xxx
To premium on redemption xx
(Being premium on redemption written off)

Delta

(Vi) Free Reserve a/c Dr
To Capital Redemption Reserve a/c

[CRR = Face value of preference share redeemed
(–)
Fresh issue of shares (face value)]

(Vii) CRR can be used for [Issue of Bonus share]

Minimum fresh issue of shares (section 55)	Minimum fresh issue of Shares to provide funds for redemption
Step 1 :- Check free reserves available after adjusting premium on redemption ∴ Profit 100 after Redemption & 20 = 280	Amount payable on redemption xxx (Face value + premium on redemption) 120 (F.V) + 15 (prem) = 135
Step 2 :- Minimum proceeds (कितने रुपये चाहिए? कम से कम shares issue करके) Face value of preference Shares to be redeemed (–) Available free reserves (step 1)	(–) Sale of investment 20 (xxx) (–) Bank Balance 45 (xxx) Funds Required 70 xxx
Step 3 :- Number of shares to be issued: = Minimum proceeds (Step 2) / Face value of 1 share	∴ No. of shares to be issued = Funds Required / Issue price per share.

DELTA Notebook