

CLASS QUESTIONS

- C.1.** The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 2017.
- Share capital: 40,000 Equity shares of ₹ 10 each fully paid - ₹ 4,00,000; 1,000 10% Redeemable preference shares of ₹ 100 each fully paid - ₹ 1,00,000.
 - Reserve & Surplus: Capital reserve ₹ 50,000; Securities premium ₹ 50,000; General reserve ₹ 75,000; Profit and Loss Account -₹ 35,000.
 - On 1st January 2018, the Board of Directors decided to redeem the preference shares at par by utilization of reserve.

You are required to pass necessary Journal Entries including cash transactions in the books of the company.

- C.2. [ICAI]** C Limited had 3,000, 12% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company had to redeem these shares at a premium of 10%. It was decided by the company to issue the following:
- 25,000 Equity Shares of ₹ 10 each at par,
 - 1,000 14% Debentures of ₹ 100 each.

The issue was fully subscribed and all amounts were received in full. The payment was duly made. The company had sufficient profits. Show Journal Entries in the books of the company.

- C.3. [ICAI]** The Board of Directors of a Company decide to issue minimum number of equity shares of ₹ 9 to redeem ₹ 5,00,000 preference shares. The maximum amount of divisible profits available for redemption is ₹ 3,00,000. Calculate the number of shares to be issued by the company to ensure that provisions of Section 55 are not violated. Also determine the number of shares if the company decides to issue shares in multiples of 50 only.

- C.4. [ICAI]** The capital structure of a company consists of 20,000 Equity Shares of ₹ 10 each fully paid up and 1,000 8% Redeemable Preference Shares of ₹ 100 each fully paid up (issued on 1.4.2017). Undistributed reserve and surplus stood as: General Reserve ₹ 80,000; Profit and Loss Account Rs.20,000; Investment Allowance Reserve out of which ₹ 5,000, (not free for distribution as dividend) Rs.10,000; Securities Premium ₹ 2,000, Cash at bank amounted to ₹ 98,000. Preference shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilising the undistributed reserve and surplus, subject to the conditions that a sum of ₹ 20,000 shall be retained in general reserve and which should not be utilized.

Pass Journal Entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out.

- C.5. [ICAI]** The Balance Sheet of XYZ Ltd. as at 31st December, 2021 inter alia includes the following information:

₹

50,000, 8% Preference Shares of ₹100 each, ₹70 paid up	35,00,000
1,00,000 Equity Shares of ₹100 each fully paid up	1,00,00,000
Securities Premium	5,00,000
Capital Redemption Reserve	20,00,000
General Reserve	50,00,000
Bank	15,00,000

Under the terms of their issue, the preference shares are redeemable on 31st March, 2022 at 5% premium. In order to finance the redemption, the company makes a rights issue of 50,000 equity shares of ₹ 100 each at ₹ 110 per share, ₹ 20 being payable on application, ₹ 35 (including premium) on allotment and the balance on 1st January, 2023. The issue was fully subscribed and allotment made on 1st March, 2022. The money due on allotment were duly received by 31st March, 20X2. The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act, 2013.

You are asked to pass the necessary Journal Entries and show the relevant extracts from the balance sheet as on 31st March, 20X2 with the corresponding figures as on 31st December, 2021.

C.6. [ICAI] With the help of the details in Question 5 above and further assuming that the Preference Shareholders holding 2,000 shares fail to make the payment for the Final Call made under Section 55, you are asked to pass the necessary Journal Entries and show the relevant extracts from the balance sheet as on 31st March, 2022 with the corresponding figures as on 31st December, 2021 assuming that the shares in default are forfeited after giving proper notices.

C.7. [ICAI] The books of B Ltd. showed the following balance on 31st December, 2013: 30,000 Equity Shares of ₹10 each fully paid; 18,000 12% Redeemable Preference Shares of ₹10 each fully paid; 4,000 10% Redeemable Preference Shares of ₹10 each, ₹8 paid up (all shares issued on 1st April, 2012).

Undistributed Reserve and Surplus stood as: Profit and Loss Account ₹80,000; General Reserve ₹ 1,20,000; Security Premium ₹ 15,000 and Capital Reserve ₹ 21,000. For redemption 3,000 equity shares of ₹ 10 each are issued at 10% premium. At the same time, Preference shares are redeemed on 1st January, 2014 at a premium of ₹ 2 Per Share. The whereabouts of the holders of 100 shares of ₹10 each fully paid are not known.

A bonus issue of equity share was made at par, two shares being issued for every five held on that date out of the Capital Redemption Reserve Account. However, equity shares, issued for redemption are not eligible for bonus.

Show the necessary Journal Entries to record the transactions.

C.8. The financial position of P Limited at 31stDecember, 2015 was as follows:

Liabilities	₹	Assets	₹
Authorised, Issued and Subscribed Capital	4,00,000	Sundry Assets	8,40,000

40,000, 5 % Redeemable Preference shares of ₹ 10 each, fully paid		Cash and Bank	3,00,000
20,000 Equity shares of ₹ 10 each, fully paid	2,00,000		
Securities Premium Account	50,000		
Profits and Loss Account	2,80,000		
Sundry Liabilities	2,10,000		
	11,40,000		11,40,000

As per the terms of issue of the Preference Shares these were redeemable at a premium of 10 % on 1st February, 2016 and it was decided to arrange this as far as possible out of the company's resources subject to leaving a balance of ₹ 50,000 in the credit of the Profit and Loss Account. It was also decided to raise the balance amount by issue Equity shares of ₹ 10 each at a premium of ₹ 2.50 per share.

You are required to give Journal Entries.

C.9. [ICAI] The Balance Sheet of X Ltd. as on 31st March, 2013 is as follows:

Particulars		₹
Equity & Liabilities		
1.	Shareholders' funds	
	a) Share capital	2,90,000
	b) Reserves and Surplus	48,000
2.	Current liabilities	
	Trade Payables	56,500
	Total	3,94,500
Assets		
1.	Non-Current Asset	
	Tangible asset	3,45,000
	Non-current investments	18,500
2.	Current Assets	
	Cash and cash equivalents (bank)	31,000
	Total	3,94,500

The share capital of the company consists of ₹50 each equity shares of ₹2,25,000 and ₹100 each Preference shares of ₹65,000(issued on 1.4.2011). Reserves and Surplus comprises Profit and Loss Account only. In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided:

- to sell all the investments for ₹15,000.
- to finance part of redemption from company funds, subject to, leaving a bank balance of ₹12,000.
- to issue minimum equity share of ₹ 50 each at a premium of ₹ 10 to raise the balance of funds required.

You are required to pass: The necessary Journal Entries to record the above transactions and prepare the balance sheet as on completion of the above transactions

C.10. [RTP May 2022] Rohan Ltd. gives you following information as at 31st March, 2021:

Particulars	₹	₹
Equity and Liabilities		
Issued & subscribed capital:		
Equity shares capital:		
60,000 Equity shares of ₹ 10 each fully paid up	6,00,000	
12% Redeemable Preference share Capital:		
5,000 share of ₹ 100 each	5,00,000	
Less: Calls in arrear (final call of ₹ 20 on 200 shares)	(4,000)	
	4,96,000	10,96,000
Reserve & surplus		
Profit and Loss Account	3,00,000	
Securities Premium Account	30,000	3,30,000
Non- current liability		
Long term borrowings: 14% Debentures		1,50,000
Current liabilities		
Trade payables		74,000
Assets		
Non-current Assets		
(i) Property, Plant & Equipment		13,00,000
(ii) Non- current Investment		1,00,000
Current Assets		
(i) Inventory		50,000
(ii) Trade Receivables		20,000
(iii) Bank		1,80,000

On April 1, 2021, the Board of Directors decided to redeem the preference shares (excluding 200 shares on which there are calls in arrear) at 10% premium and to sell the investment at its market price of ₹ 80,000. They also decided to issue sufficient number of equity shares of ₹ 10 at a premium of ₹ 1 per share and the balance in profit and loss account was to be maintained at ₹ 1,00,000. Premium on redemption can't be set off against securities premium account as Rohan Ltd. is governed by section 133 of the Companies act, 2013 and comply with Accounting Standards.

You are required to show the journal entries and the balance sheet of the company immediately after completion of redemption as per Schedule III. Show working for availability of profits for redemption and determination of bank balance at the end. All the above formalities and transactions

were completed up to the end of 15th May, 2021

C.11. [ICAI] Trinity Ltd. gives you the following information as at 31.3.2021:

	₹
Property, Plant and Equipment:	
Gross Block	3,00,000
Less: Depreciation	1,00,000
	2,00,000
Investments	1,00,000
Inventory	45,000
Trade receivables	25,000
Cash and Bank Balances	50,000
Share Capital:	
Authorised:	
10,000 10% Redeemable Preference Shares of ₹ 10 each	1,00,000
90,000 Equity Shares of ₹10 each	9,00,000
Issued, Subscribed and Paid-up Capital:	
10,000 10% Redeemable Preference Shares of ₹ 10 each	1,00,000
10,000 Equity Shares of ₹ 10 each	1,00,000
Reserves and Surplus:	
General Reserve	1,20,000
Securities Premium	70,000
Profit and Loss A/c	18,500
Current Liabilities and Provisions	11,500

For the year ended 31.3.2022, the company made a net profit of ₹35,000 after providing ₹20,000 depreciation.

The following additional information is available with regard to company's operation:

1. The preference dividend for the year ended 31.3.2022 was paid.
2. Except cash and bank balances other current assets and current liabilities as on 31.3.2022, was the same as on 31.3.2021.
3. The company redeemed the preference shares at a premium of 10%.
4. The company issued bonus shares in the ratio of one share for every equity share held as on 31.3.2022.
5. To meet the cash requirements of redemption, the company sold investments.
6. Investments were sold at 90% of cost on 31.3.2022.

You are required to prepare necessary journal entries to record redemption and issue of bonus shares

- C.12.** 20,000 12% Preference Shares of ₹ 100 each redeemable now. The terms of issue provided that the preference share could be redeemed at a premium of 10% either by payment in cash or by allotment of other preference shares, equity shares and/or debentures according to the option of the preference shareholders.

On 1st of January 2012 the company informed the preference shareholders to redeem the preference shares of ₹ 100 each at ₹ 120 per share or 10% debentures of ₹ 60 each at ₹ 55 per debenture or Equity share of ₹ 10 each at ₹ 20 per share.

Holders of 6,000 preference share accepted the offer of the 13% Preference shares, holders of 4,000 preference share accepted the offer of 10% debentures, holder of 8,000 preference share accepted the offer of equity shares and the rest demanded cash.

Give Journal Entries recording the above redemption/conversion.

PRACTICE QUESTIONS

P.1. [ICAI] Hinduja Company Ltd. had 5,000, 8% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of ₹ 10 each fully paid up at par. You are required to pass necessary Journal Entries including cash transactions in the books of the company.

P.2. [ICAI] G India Ltd. had 9,000 10% redeemable Preference Shares of ₹ 10 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of ₹ 9 each fully paid up. You are required to pass necessary Journal Entries including cash transactions in the books of the company.

P.3. The following balances extracted from the books of S Ltd. 1,000, 11% Redeemable Preference Shares of ₹ 100 each fully paid.

1,000 10% Redeemable Preference Shares of ₹ 100 each ₹ 80 per shares paid up.

4,000 Equity Shares of ₹ 10 each, fully paid.

General Reserve ₹ 70,000, Profit and Loss A/c. ₹ 30,000.

The preference Shares are redeemed at a premium of 10%. For this purpose, the company makes the following issues.

- 5,000 Equity Shares of ₹ 10 each at a premium of 10%
- 1,000 8% Debentures of ₹ 10 each.

P.4. [May 2018] Dheeraj Limited had 5,000, 10% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company had to redeem these shares at a premium of 10%.

It was decided by the company to issue the following:

- 40,000 Equity Shares of ₹ 10 each at par
- 2,000 12% Debentures of ₹100 each

The issue was fully subscribed and all accounts were received in full. The payment was duly made. The company had sufficient profits. Show journal entries in the books of the company.

P.5. The summarised Balance Sheet of Sterling Ltd. as on 31-12-2015 was as follows:

Liabilities	₹	Assets	₹
Share Capital:		Sundry Assets	34,00,000
Issued and paid up		Cash	6,00,000
10,000 8% Redeemable preference shares of ₹ 100 each	10,00,000		

1,00,000 Equity Shares of ₹ 10 each	10,00,000		
Capital Reserve	5,00,000		
General Reserve	2,00,000		
Profit and Loss Account	9,50,000		
Creditors	3,50,000		
	40,00,000		40,00,000

The Preference Shares were redeemable on 31-3-2016 at a premium of 25%. For the purpose, the company decided to issue 50,000 Equity Shares of ₹ 10 each at a premium of ₹ 4 per share payable in full on 15-3-2016. Show the necessary entries.

P.6. [RTP May 2018 & Similar in ICAI] The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 2021:

Share capital: 50,000 Equity shares of ₹ 10 each fully paid - ₹ 5,00,000; 1,500 10% Redeemable preference shares of ₹ 100 each fully paid - ₹ 1,50,000.

Reserve & Surplus: Capital reserve - ₹ 1,00,000; General reserve - ₹ 1,00,000; Profit and Loss Account - ₹ 75,000.

On 1st January 2022, the Board of Directors decided to redeem the preference shares at premium of 10% by utilization of reserves.

You are required to prepare necessary Journal Entries including cash transactions in the books of the company.

P.7. [May 2019] The Summarized Balance Sheet of Clean Ltd. as on 31ST March, 2019 is as follows:

Particulars	(₹)
Equity & Liabilities	
1. Shareholder's funds:	
(a) Share Capital	5,80,000
(b) Reserves and Surplus	96,000
2. Current Liabilities:	
Trade Payables	1,13,000
Total	7,89,000
Assets	
1. Non-Current Assets	
(a) Property, Plant and Equipment	
Tangible Assets	6,90,000
(b) Non-current investments	37,000
2. Current Assets	
Cash and cash equivalents (Bank)	62,000
Total	7,89,000

The Share Capital of the company consists of ₹ 50 each Equity shares of ₹ 4,50,000 and ₹ 100 each 8% Redeemable Preference Shares of ₹ 1,30,000 (issued on 1.4.2017). Reserves and Surplus comprises statement of profit and loss only.

In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided:

- to sell all the investments for ₹ 30,000.
- to finance part of redemption from company funds, subject to, leaving a Bank balance of ₹ 24,000.
- to issue minimum equity share of ₹ 50 each at a premium of ₹ 10 per share to raise the balance of funds required.

You are required to

- Pass Journal Entries to record the above transactions.
- Prepare Balance Sheet after completion of the above transactions.

P.8. [Nov. 2020] The Books of Arpit Ltd. shows the following Balances as on 31st December, 2019:

	Amount (₹)
6,00,000 Equity shares of ₹ 10 each fully paid up	60,00,000
30,000, 10% Preference shares of ₹ 100 each, ₹ 80 paid up	24,00,000
Securities Premium	6,00,000
Capital Redemption Reserve	18,00,000
General Reserve	35,00,000

Under the terms of issue, the Preference Shares are redeemable on 31st March, 2020 at a premium of 10%. In order to finance the redemption, the Board of Directors decided to make a fresh issue of 1,50,000 Equity shares of ₹10 each at a premium of 20%, ₹ 2 being payable on application, ₹ 7 (including premium) on allotment and the balance on 1st January, 2021. The issue was fully subscribed and allotment made on 1st March, 2020. The money due on allotment was received by 20th March, 2020.

The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act, 2013.

You are required to pass the necessary Journal Entries and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out on 31st March, 2020.

P.9. [RTP Nov. 2021] Neeraj Ltd.'s capital structure consists of 45,000 Equity Shares of ₹ 10 each fully paid up and 3,000 9% Redeemable Preference Shares of ₹ 100 each fully paid up as on 31.03.2021. The other particulars as at 31.03.2021 are as follows:

	Amount (₹)
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General Reserve	1,80,000
Profit & Loss Account	90,000
Investment Allowance Reserve (not free for distribution as dividend)	22,500
Cash at bank	2,92,500

Preference Shares are to be redeemed at a premium of 10%. For the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilizing the undistributed reserve & surplus, subject to the conditions that a sum of ₹ 60,000 shall be retained in General Reserve and which should not be utilized. Company also sold investment of 6,750 Equity Shares in Kumar Ltd., costing ₹67,500 at ₹ 9 per share.

Pass Journal entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet as at 31.03.2021 of Neeraj Ltd. after the redemption is carried out.