

Redemption of Pref Share

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redemption of pref share

Redemption of Preference Share.

① Meaning:-

Redemption is the process of repaying an obligations → at prearranged amount, & → at predecided timings

②

Method of Redemption of Pref. Shares

(I) By Fresh issue of Shares

(II) Capitalization of undistributed profits
(Free Reserve)

(III) Combination of both

③ Redemptions of Preference shares by Fresh issue of Shares.

a) A Company can redeem shares by fresh issue of equity or preference shares

However, proceeds from issue of debentures cannot be utilised for the purpose

b) However, proceeds of fresh issue of shares will not include the amount of security premium for the purpose of redemption of pref. share.

Ex:- Pref share to be redeemed for ₹ 10,00,000 at

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20%

fresh shares to be issued at ₹10/share at Premium of ₹90.

Calculate No. of share.

Solⁿ →

$$\text{No. of Share to be issued} = \frac{\text{₹10,00,000}}{\text{₹10}} = \text{100,000 Shares}$$

→ Amount of Capital paid off

Q) Journal entry

① Issue of new shares at par

Bank A/c Dr
To Equity Share Capital A/c Cr

② Issue of new shares at premium

Bank A/c Dr
To Equity Share Capital A/c
To Security premium A/c

③ Preference shares are redeemed at par/premium

1/ Preference Share Capital A/c Dr Cr
Premium payable on redemption A/c Dr Cr
of preference

To Preference Shareholder A/c xx

④ Payment made

Preference Shareholder A/c xx
To Bank A/c xx

⑤ Adjustment of prem. on redemption

P&L A/c Dr. xx
To Premium on Redemption A/c xx

§-133 → prescribed co. → & it cannot
use security premium to
write off premium on redemption

④ Minimum No. of Shares to be issued

Minimum Proceeds = Nominal value of PS - Maximum Amount of Reserve available

Compute No. of Shares.

No. of Share =
$$\frac{\text{Minimum proceed}}{\text{Face value / Share}}$$

∴ If Shares in fraction, round off to next whole number.

⑤ Redemption of preference shares by capitalisation of undistributed profits.

a) When the preference shares are redeemed out of undistributed profits,

Amount equal to nominal value of shares redeemed is transferred from profits which would be available for dividend to a reserve fund called Capital Redemption Reserve.

b) Journal Entry

(i) When shares are redeemed at par.

Redeemable Preference Share Capital A/c Dr
To Preference Shareholders A/c

(ii) When shares are redeemed at premium

Redeemable preference share Capital A/c Dr
Premium on redemptions of pref. share A/c Dr
 To Preference Shareholders A/c.

(iii) Payment made

Preference Share holders A/c Dr

To Bank A/c

(iv) Adjustment of premium

P&C A/c Dr

Kx

To Premium on Redemption of
Preference share A/c

Kx

(v) Creation of CRR

P&C/Free Reserve/General Reserve Kx

To Capital Redemption
Reserve A/c

Kx

⑥ Redemption of Preference Share by Combination of two methods.

• Follow the instructions given in question as to which method is to be used first.

a) If amt of fresh issue is given, then

Amount to be tr'd to CR =

Fv of Shares redeemed
 (-) Proceeds from new issue (excluding Premium)

$$\begin{array}{r} \text{or} \\ xx \\ (xx) \\ \hline xx \end{array}$$

b) If amount of reserve/profit available to distributed as dividend is given,

Proceeds to be collected from New issue =

Face value of Shares redeemed
 (-) profits available for dividend

$$\begin{array}{r} \text{or} \\ xx \\ (xx) \\ \hline xx \end{array}$$

⑦ Redemption of Partly Called up pref. Shares

a. One condition for redemption is that only fully paid up preference shares can be redeemed.

b. If question asks to redeem partly called up shares, then it is assumed final call is demanded & they are redeemed.

c. If question has fully paid & partly paid shares, and it asks for redemption, then only fully paid shares are to redeemed.