

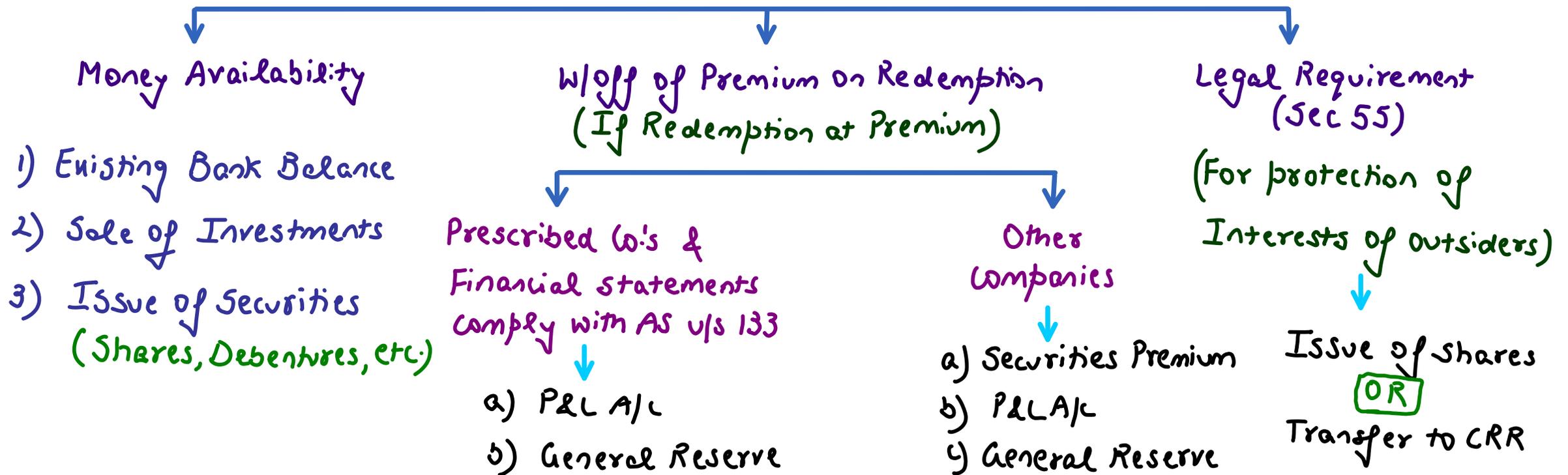
Redemption of Preference Shares

[Repayment of capital to Preference shareholders at Agreed Rate]

Conditions for Redemption

- * Authorised by Articles of Association
- * Preference shares cannot be redeemed unless they are fully paid up.

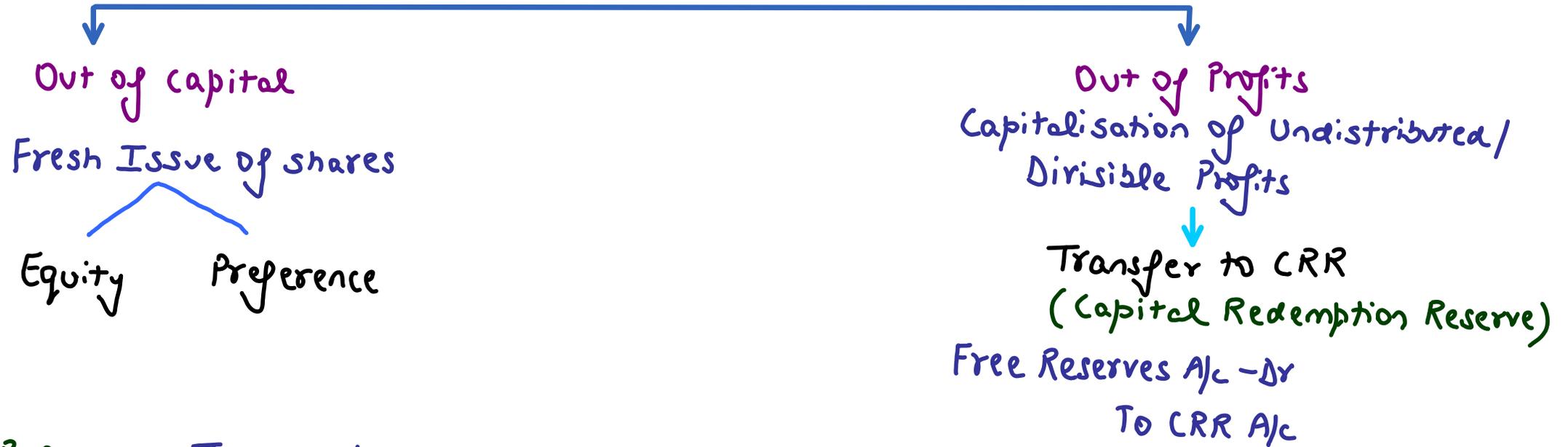
Redemption



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Redemption



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

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

Amount to be transferred to CRR:

Nominal value of Preference Shares to be redeemed	XX
(-) Nominal value of Fresh shares issued	(XX)
	<hr/>
	XX
	<hr/>

Why CRR Created ??

Case 1:

B/s

	(Lakhs)		(Lakhs)
Share capital	10	Sundry Assets	30
PLA/c	10		
Creditors	10		
	<u>30</u>		<u>30</u>

How many times creditors are secured ?

Case 2: Redemption 2 Lakhs: No CRR

	(Lakhs)		(Lakhs)
Share capital	10 8	Sundry Assets	30 28
PLA/c	10		
Creditors	10		
	<u>30 28</u>		<u>30 28</u>

How many times creditors are secured ?

Case 3: Redemption 2 Lakhs: CRR Created

	(Lakhs)		(Lakhs)
Share capital	10 8	Sundry Assets	30 28
P&L A/c	10		
CRR			
Creditors	10		
	<u>30 28</u>		<u>30 28</u>

How many times creditors are secured?

Example:

Preference share
Nominal value = 100
Premium on Redemption = $\frac{10}{110}$

CRR

Preference share capital
Issue of share
Transfer to CRR

Case 1

100

PAR

60

Case 2

100

PREMIUM

60 + 10 = 66

Partly paid up Preference shares

Case 1:

Only 1 class of Preference shares given

E.g.

1000, 13% Preference 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 &
Ques. is silent which one to redeem

E.g.

- 1000, 12% Pref. shares of 100 each, fully paid up
 - 5000, 9% Pref. shares 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

E.g.

1000, 12% Preference Shares of 100 each fully paid up
Preference Shares to be redeemed at 107% Premium
50 PSH not traceable.