

## Redemption of Preference Share

Preference shares are owner of company and have two preference

- Right of fixed rate of dividend
- Right of early payment before equity shareholders at the time of winding up.

If the company has issued preference shares:

Balance sheet			
—/ Preference share capital	xxx	Cash at Bank	xxx

By seeing the investment done by the owner, the outsiders are willing to provide loan to the company.

Redemption :- Repayment. At the time of winding up of preference shares, the shareholders are informed about the details of redemption. So, here we will understand the details and the accounting entry at the time of redemption ( paisa wapas karna):

### Journal Entries

Case 1: At the time of issue

Situation 1: Issued at par

F.V → 100      I.P → 100

Bank A/c	Dr.	100
To P.S Application and Allotment A/c (Being amount received)		100

P.S Shares Application and Allotment A/c	Dr.	100
TO : % P.S Share Capital A/c		100
(Being amount transferred)		

Situation 2: Issued at premium.

F.V → 100      I.P → 110

Bank A/c	Dr.	110
TO P.S Application and Allotment A/c		110
(Being amount received)		

P.S Application and Allotment A/c	Dr.	110
TO % P. Share Capital A/c		100
TO Securities Premium Reserve A/c		10
(Being amount transferred)		

Case 2: At the time of redemption.

Situation 1: At par.

F.V - 100      R.P - 100

% Preference Share Capital A/c	Dr.	100
TO Preference Shareholders A/c		100
(Being amount due)		

Preference Shareholders A/c	Dr.	100
TO Bank A/c		100
(Being amount paid)		

Situation 2: At premium

F.V → 100      R.P → 105

1/ Preference share capital A/c	Dr	150	
Premium on Redemption of P.S	Dr	5	
To Preference shareholders A/c			105
(Being amount due)			

Preference shareholders A/c	Dr	105	
To Bank A/c			105
(Being amount paid)			

* Securities Premium A/c (if balance is there)	Dr		
SOPL (In book - P/L A/c)	Dr		
To Premium on redemption of Preference Shares			
(Being loss written off)			

→ Now if the preference shares is redeemed, then the provision of Companies Act, 2013 will apply. As per the provision, if the preference shares are to be redeemed then, the company must comply any of the below condition

- (i) to issue equity shares of the face value of preference shares to be redeemed.
- (ii) to convert free reserves into capital redemption reserve (CRR), so that dividend cannot be distributed
- (iii) combination of (i) and (ii)

→ Free Reserves :- The reserves which are free for distribution of dividend. Ex:- General Reserve or SOPL (balance)

DATE:

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The Journal Entry

of :- (i) Issue of Equity shares  
(a) at par

Bank A/c

Dr.

To Equity share capital A/c

(Being shares issued)

(b) at premium.

Bank A/c

Dr. 1,10,000

To Equity share capital A/c

1,00,000

To Securities Premium A/c

10,000

(ii) Creation of CRR

General Reserve A/c

Dr. xxx

Profit and loss A/c

Dr. xxx

Investment Allowance Reserve A/c

Dr. xxx

(if available for distribution of dividend)

Other Reserves A/c

Dr. xxx

(Available for distribution of dividend)

To Capital Redemption Reserve A/c

(Being CRR created)

Eg:- C Ltd had 10,000, 10% redeemable preference shares of ₹100 each, fully paid. The company decided to redeem the preference shares at par by issue of sufficient no. of equity shares of ₹10 each at a premium of ₹2 per share as fully paid. Pass J.E.

Date	Particulars	LF	Dr (₹)	Cr (₹)
	Bank A/c	Dr	12,00,000	
	To Equity Share A/c			10,00,000
	To Securities Premium A/c			2,00,000
	(Being 1,00,000 equity shares of ₹10 each issued)			
	10% Redeemable Preference Shares A/c	Dr	10,00,000	
	To Preference Shareholders A/c			10,00,000
	(Being 10,000 preference shares of ₹100 each redeemed)			
	Preference Shareholders A/c	Dr	10,00,000	
	To Bank A/c			10,00,000
	(Being amount paid on redemption of preference shares)			

NOTE: Premium received on new issue cannot be used to finance the redemption.

Topic - Calculation of Minimum Fresh Issue of Shares

Amount due to Preference share Capital A/c	xxx
less: Amount available for distribution of dividend	(xxx)
Amount to be raised from issue of equity shares	xxx

No. of shares =  $\frac{\text{Amount to be raised from issue of equity shares}}{\text{Face value}}$

NOTE: Sometimes, question ask to round off equity shares in the multiple of 50.

So, suppose our answer is 22,223 shares

So, after rounding off share will be 22,250.

Round off it to higher level

Because <sup>the value of</sup> equity share capital will be reduced.

NOTE: It is termed as provision of Section 55 not violated.

4) No. Amount to due to P.S holders	5,00,000
↳ Amount available for CRR	(3,00,000)
Minimum fresh issue of equity shares	2,00,000

No. of equity shares =  $\frac{2,00,000}{9} = 22,222.22$

Round off - 22,250.

### Redemption of Partly called up Preference Shares

Partly called up means company has not called full value  
Eg:- share face value is 10  
company called up

① ₹ 10

fully called up shares

② ₹ 8

partly called up shares.

→ The Preference shares will be redeemed only if it is fully called up.

So, if preference shares are partly called up then, we will pass call due entry and receiving entry and after it is fully called up it will be redeemed.

When call money due

Share First and Final Call A/c      Dr.  
To Share Capital A/c

When call money is received.

Bank A/c      Dr.  
To Share First and Final Call A/c

NOTE: If in the question both fully paid and partly paid preference shares is given, then it is presumed that only fully paid shares are to be redeemed and partly paid shares are left intact.

Calls in Arrear and Forfeiture and Reissue

calls in Arrear :- When a shareholder does not pay allotment and call money, then it is termed as calls in arrear. It is debited at the time of receiving.

Suppose 1,00,000 preference shares of ₹10 issued out of which call was ₹2. Mohan holding 10,000 shares did not pay call money.

(1) Due

P. Share First and Final Call A/c      Dr. : 2,00,000  
To P's Capital A/c      2,00,000

(ii) Received

Bank A/c (9,0000 x 2)

Dr 1,80,000

Calls in Arrear (10,0000 x 2)

Dr 20,000

To Preference Share First &amp; Final Call A/c 2,00,000

Suppose, afterwards Mohan paid the ~~the~~ arrears money

Bank A/c

Dr 20,000

To Calls in Arrear A/c

20,000

→ But if Mohan is not paying after repeated reminder then his share is forfeited.

Preference Share Capital A/c

Dr: (called up)

To Calls in Arrear A/c

(Amt not received)

To Share Forfeiture A/c

(Amt. Received)

Afterwards, [share is reissued], then profit is transferred to Capital Reserve.

Share Forfeiture A/c

Dr:

To Capital Reserve A/c

If shares are forfeited then balance of preference share holder are due for redemption and premium will be paid to balance shareholder.

Suppose → share issued 50,000

share forfeited (20,000)

share to be redeemed 40,000

After payment to 40,000 shareholders, the balance in share forfeiture A/c will be transferred to Capital Reserve.



Bank A/c

As, we all know, we are going to redeem preference shares. So, we need money in Bank A/c.

If there is not sufficient money in bank A/c, then issue sufficient no. of equity shares to raise money in Bank A/c and the CRP will be created.

(Face value of P.S redeemed - Face value of equity share issued)

		Bank A/c		
Particulars		₹	₹	
Equity Share Capital	To balance b/d	XXX	By liability paid	XXX
	To Asset realised	xxx	By preference share holders (PS + Premium)	xxx
	To Equity Share App.	XXX	By bal c/d (minimum amount maintained)	XXX
	To E.S Allotment A/c	xxx		
	To E.S first & final call	xxx		
		<u>XXX</u>		<u>XXX</u>

sometimes the difference in the bank is the equity shares to be issued.

## Redemption of Debentures

Debentures :- It is an acknowledgement of a debt. It is a loan raised by the public company from the public. The company has to pay interest on loan.

Shares	Debentures
1. Owner of company.	1. Outsiders / Creditor of the company
2. Shareholder	2. Debentureholders
3. Voting rights	3. Non-voting rights
4. Dividend	4. Interest
5. Does not reduce profit, so tax is payable on dividend (Higher tax)	5. Since, interest is charged to P.L. so, profit is reduced. hence, less tax is payable.

### Issue of Debenture

Six cases of issue and redemption

#### Topic 1. Redemption at Par

Here at the time of issue it was decided to redeem debentures at par.

There are three cases

C-1 Issued at par, redeemed at par  
 F.V-100      I.P-100      R.P-100

Bank A/c

Dr. 100

To Debenture Application and Allotment A/c 100  
 (Being amount received)

Debenture Application and Allotment A/c Dr. 100

To — % Debentures A/c 100  
 (Being amount transferred)

C-2 Issued at premium, redeemed at par.  
 F.V - 100, I.P - 110, R.P - 100

Premium is a profit, hence credited.

Bank A/c Dr. 110  
 To Debenture <sup>APP</sup> and Allotment A/c 110  
 (Being amount received)

Debenture Application and Allotment A/c Dr. 110  
 To — % Debentures A/c 100  
 To Securities Premium A/c 10  
 (Being amount transferred)

NOTE: Interest is always charged on Face value i.e. 100

C-3 Issued at discount, redeemed at par.  
 F.V - 100, I.P - 90, R.P - 100

Bank A/c Dr. 90  
 To Debentures Application and Allotment A/c 90  
 (Being amount received)

Debenture Application and Allotment A/c Dr. 90  
 Discount on issue of debentures A/c Dr. 10  
 To — % Debentures A/c 100  
 (Being amount transferred)

Topic 2: Redemption at Premium

Here at the time of issue it was decided to redeem the debentures at premium. As per prudence, anticipate all losses but no gain. There are three cases.

So, at the time of issue, following prudence, we will add in transfer entry.

(Expense) Loss on issue of debentures A/c      Dr.  
(Liability) To Premium on redemption of debenture

C-4 Issued at par, redeemed at premium!  
F.V - 100, I.P - 100, R.P - 105

Bank A/c      Dr. 100  
    To Debenture Application & Allotment A/c      100  
(Being amount received)

Debenture Application & Allotment A/c      Dr. 100  
Loss on issue of debenture A/c      Dr. 5  
    To 1% Debentures A/c      100  
    To Premium on redemption of debenture 5  
(Being amount transferred)

C-5 Issued at premium, redeemed at premium  
F.V - 100, I.P - 110, R.P - 105

Bank A/c      Dr. 110  
    To Debentures Application & Allotment A/c      110  
(Being amount received)

Debenture Application and Allotment A/c      Dr. 110  
Loss on issue of debentures A/c      Dr. 5  
    To 1% Debentures A/c      100  
(Reserve) → To Securities Premium A/c      10  
(Liability) → To Premium on redemption of deb.      5

∴ Do not add it

C-6 Issued at discount, redeemed at premium  
 F.V - 100, I.P - 90, R.P - 105

Bank A/c Dr. 90  
 To Debenture Application & Allotment A/c 90.  
 (Being amount received)

Debenture Application & Allotment A/c Dr. 90

If written off in different year  
 ← Discount on issue of debentures A/c Dr. 10

← Loss on issue of debentures A/c Dr. 5

TO — 1/2 Debentures A/c 100

To Premium on redemption of debentures 5

OR

Debenture Application & Allotment A/c Dr. 90

If written off in same year  
 ← Loss on issue of debentures A/c Dr. 15

TO — 1/2 Debentures A/c 100

To Premium on redemption of debentures 5

Issue → 2 entries

Redemption :- means repayment. Here the liability will be repaid. There are two cases :-

Case 1: Redeemed at Par

— 1/2 Debentures A/c Dr. 100

TO Debenture holder A/c 100

(Being amount due)

Debenture holder A/c Dr. 100

(Being amount paid) To Bank A/c 100

Case 2: Redeemed at premium

10%	Debiture A/c	Dr.	100
	Premium on redemption of deb.	Dr.	5
	To Debitureholder A/c		105

(Being amount due)

	Debitureholder A/c	Dr.	105
	To Bank A/c		105

(Being amount paid)

Redemption → 2 entries.

### Topic 3: Debenture Redemption Reserve (DRR)

Few enterprises (except banks) are required to convert free reserve into DRR.

→ When it is required?

31st March preceding the date of redemption

→ How much amount is to be transferred?

10% of the face value of the debentures redeemed

NOTE:- Banking institutions are not required to create DRR.

Sometimes out of Profit, 100% is to be transferred as instructed by question

After creating DRR, the debenture is redeemed and after redemption the DRR is transferred to general Reserve (Free Reserve)

For creating DRR

31/03 before the date of redemption

General Reserve A/c  
SD PL

Dr  
Dr

To DRR

(Being reserve created)

For transferring DRR

DRR A/c

To General Reserve A/c

Dr  
Dr

(Being reserve transferred)

DRR → 2 entries

Topic 4: The company is required to invest some money can earn interest on it. Before redemption, the investment is sold.

Debenture Redemption Investment (DRI)

→ When it is required?

30th April before the date of redemption

→ How much amount is to be transferred?

15% of the face value of debenture redeemed.

NOTE: Banking institutions are not required.

For investing money

30/04 before the date of redemption

DRI A/c

To Bank A/c

Dr

(Being money investment A/c)

