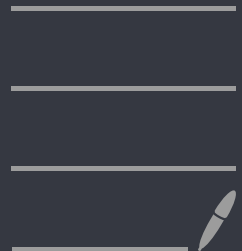


Unit 5:

3-3.5 hours

Redemption of Preference Shares



Redemption of Preference Shares

↓
Redeemable
[Repayment]
→ Not more than 20 years

Tina Clothing



Repay
31/3/24

₹ 10,00,000

₹ 10,00,000

Balance Sheet

	₹		₹
Eq. sh cap	80	Sundry Assets	160
Pref. sh. cap	20		
Gen Res / P&L A/c	10	→ Dividend	
Bank Loan / sund. cr.	50		
	<u>160</u>		<u>160</u>

Security to Creditors :- $\frac{160 - 10}{50} = \underline{\underline{3 \text{ times}}}$

→ Red. of preference shares :

$$\begin{array}{r} \text{Assets} = 160 \\ \text{C10) - Div.} \\ \text{C20) - Pref. sh.} \\ \hline 130 \end{array}$$

$$\text{Security to Creditors} = \frac{130}{50} = \underline{2.6 \text{ times}}$$

→ But, Security to Creditors / Bank loan should not be reduced.

Sec-55 : Modes of Redemption

1. Proceeds of fresh issue of eq. shares

Face value of Redeemable Pref sh = ₹20

Face value of issue of eq. shares = ₹20

$$\text{Security to creditors} = \frac{160 - 10 + 20 - 20}{50} = \underline{3 \text{ times}}$$

2. Capitalisation of Undistributed profits / Reserve

Creation of Capital Res. Res. out of free Reserves

Imp: CRR can be used for the purpose of issue of fully paid Bonus shares.

Balance Sheet

	₹		₹
Eq. sh cap	90	Sundry Assets	160
Pref. sh. cap	10		
CRR	10		
Gen Res / P&L A/c	10	→ Dividend	
Bank Loan / sund. cr.	50		
	<u>160</u>		<u>160</u>

$$\text{Security to Creditors} = \frac{160-10}{50} = \underline{3 \text{ times}}$$

3. Combination of 1] & 2]

— Provisions of Section 55

1. Pref Shares cannot be redeemed unless they are fully paid up.

2. Face value of Pref. Shares redeemed

$$\begin{array}{ccc} & \swarrow & \searrow \\ \text{(i) FV of eq. sh. issued} & + & \text{(ii) CRR} \end{array}$$

→ Calculation of CRR to be Created:

1. FV of pref shares Redeemed	xxx
(-) FV of eq. shares issued	(xxx)
CRR	xxx

Eg:- Redemption of 10%, 2000 pref shares of ₹100 each at 10% prem.
 → Issue of 1000 eq. shares of ₹100 each.

→ FV of pref shares redeemed -	200,000
(-) FV of eq. sh	= (100,000)
CRR	100,000

3. Redemption of Preference Shares.

a) 1. Redeemable pref shares cap Dr. — FV
Premium on Red. of pref sh. Dr. — Loss
To pref shareholder. — Total

b) Pref sh. Dr
To Bank A/c

4. Creation of CRR

Gen. Res. / P&L A/c Dr
To CRR.

5. Writing off prem on Red of pref. shares.

P&L A/c Dr / Gen. Res A/c
To prem on Red. of pref shares.

→ Though section 52 of Co Act 2013 allows writing off prem on Red. of pref shares through SPR but certain class of Co. (section 133) cannot utilise SPR.

ILLUSTRATION 1

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.

WN

NO. of eq. shares :

$$\begin{aligned} \text{FV of pref shares redeemed} &= 50,000.00 \\ \text{FV of eq. share} &= 10 \\ \text{No. of eq. shares} &= 5,000 \end{aligned}$$

Journal

1. Bank A/c Dr. (5,000 x 10) 500,000
To eq. sh cap 500,000
2. 8% Redeemable pref. sh cap Dr. 500,000
To pref. sh. 500,000
3. Pref sh. Dr. 500,000
To Bank A/c 500,000

ILLUSTRATION 2

C Ltd. had 10,000, 10% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company decided to redeem these preference shares at par, by issue of sufficient number of equity shares of ₹ 10 each at a premium of ₹ 2 per share as fully paid up. You are required to pass necessary Journal Entries including cash transactions in the books of the company.

WN

No. of eq. shares :

$$\begin{aligned} \text{FV of pref shares redeemed} &= 10,00,000 \\ \text{FV of eq. share} &= 10 \\ \text{No. of eq. shares} &= 100,000 \end{aligned}$$

Journal

1. Bank A/c Dr (100,000 x 12) 12,00,000
 To eq. sh. cap 10,00,000
 To Sec. prem A/c 2,00,000

2. 10% Redeemable pref. sh cap Dr. 10,00,000
 To pref. sh. 10,00,000

3. Pref sh. Dr 10,00,000
 To Bank A/c 10,00,000

ILLUSTRATION 3

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. ₹ 9 ✓

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

WN 1

$$\text{No. of eq. Shares} = \frac{90,000}{9} = 10,000$$

ILLUSTRATION 6

The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 2022.

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 2023, the Board of Directors decided to redeem the preference shares at par by utilisation of reserve.

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

1. 10% Redeemable pref. sh. Dr. 100,000
To pref. sh. A/c 100,000
2. Pref. sh. Dr. 100,000
To Bank 100,000

3.	Gen. Res	Dr	75000	
	P&L	Dr	25000	
		To	CRR	100.000

ILLUSTRATION 7

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.

Note: The proceeds from issue of Deb. cannot be utilised.

WNI Capital Red. Res.

FV of pref shares redeemed	-	300.000
↪ FV of eq. sh. issued		(250.000)
	CRR	<u>50.000</u>

Journal

- Bank Dr. 250.000
To Eq. Sh. cap 250.000
- Bank Dr. 100.000
To 14% Deb A/c 100.000

3. 12% Redeemable pref sh. A/c Dr. 300,000
Prem on Red. of pref sh Dr. 30,000
To pref sh. A/c 330,000
4. Pref sh. 330,000
To Bank A/c 330,000
5. P&L A/c Dr 50,000
To CRR A/c 50,000
6. Profit & Loss A/c Dr 30,000
To Prem on Red. 30,000
-

ILLUSTRATION 4

The Board of Directors of a Company decided 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 the 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.

WN Min no. of eq. shares:

$$\begin{aligned} \text{FV of pref. shares redeemed} &= 500,000 \\ \text{(-) CRR - Max Res. available} &= (300,000) \end{aligned}$$

$$\begin{array}{r} \text{Min. proceeds of eq. share} \\ \text{per share value} \end{array} \quad \frac{\text{₹ } 200,000}{\text{₹ } 9}$$

$$\text{No. of eq. shares} = 22,222.22$$

[Rounded off to next higher figure]

$$22,223 \text{ equity shares } \checkmark$$

→ If shares are to be issued in multiples of 50

$$\text{Min no. of eq. shares} = 22,250$$

Imp

ILLUSTRATION 5

X Ltd. gives you the following information as at 31st March, 2023:

Particulars		₹
EQUITY AND LIABILITIES		
1. Shareholders' funds		
a Share capital	Eg. 225000 Pref 65000	2,90,000
b Reserves and Surplus		48,000
2. Current liabilities		
Trade Payables		56,500
ASSETS		
1. Property, Plant and Equipment		3,45,000
2. Non-current investments	3500 Loss	18,500
3. Current Assets		
Cash and cash equivalents (bank)	12000	31,000

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 1.4.2021). 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:

₹ 71500

- 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 share to raise the balance of funds required.

You are required to pass the necessary Journal Entries to record the above transactions.

WN1

Bank A/c

Cr.

To bal b/d	31000	By pref shareh. (65000+10%)	71500
To Investment	15000		
To Eq. sh cap (bal fig)	31500	by bal c/d	12000
	<u>83500</u>		<u>83500</u>

No. of eq. shares = $\frac{31500}{50} = 750$ eq. shares

WN2

Cap Red. Res:

FV of pref share redeemed = 65000
 ⇒ FV of eq. shares issued CRR $\frac{(31500)}{21500}$

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1. Bank A/c Dr. 15000
 P&L A/c Dr. 3500
 To Investment 18500

2. Bank A/c Dr. 37500
To eq. Sh cap A/c 37500

3. Pref Share Cap Dr. 65000
Prem on Red Dr 6500
To pref sh. 71500

4. Pref Sh. Dr. 71500
To Bank 71500

5. P&L A/c Dr. 27500
To CRR 27500

6. P&L A/c Dr. 6500
To prem on Red 6500



ILLUSTRATION 8

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 1.4.2021).

Undistributed reserve and surplus stood as: General Reserve ₹ 80,000; Profit and Loss Account ₹ 20,000; Investment Allowance Reserve (out of which ₹ 5,000, not free for distribution as dividend) ₹ 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 utilised.

Pass Journal Entries to give effect to the above arrangements.

WN1

CRR:

Gen Res	-	80,000	
(-) To be retained		(10,000)	60,000
Inv. Allowance Res	-		5,000
P&L A/c	-	20,000	
(-) Prem on Red written off		(10,000)	10,000
			<u>75,000</u>

WN2 No. of equity Shares:

FV of pref. shares to be redeemed - CRR	100,000
	(75,000)
FV of eq. shares	25,000
per share value	10
No. of eq. shares	2,500

Journal

1. Bank A/c Dr 25000
To eq. sh. cap 25000
 2. 8% Redeemable pref. sh. cap Dr. 100,000
Prem on Red Dr 10,000
To pref. sh. 1,10,000
 3. Pref. sh. Dr. 1,10,000
To Bank 1,10,000
 4. Gen. Res Dr 60,000
Inv. all. Res 5000
P&L A/c Dr. 10,000
To CRR 75000
 5. P&L A/c Dr. 10,000
To prem on Red. 10,000
-

→ When equity shares are issued in installments.

Face value amt received upto the date of redemption of pref shares is considered.

ILLUSTRATION 9

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	Convert ✓
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, 2022. 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. (Ignore date column)

<p><u>WNI</u> FV of pref sh. Redeemed - 50,00,000</p> <p>(-) Proceeds of Issuc of eq. shares upto date of Red (50,000 x 45) 22,50,000</p> <p style="padding-left: 20px;">CRR 27,50,000</p>	<p style="text-align: center;">100 + 10</p> <p style="text-align: center;"> 20 35 55 ———— (25+10) </p>
--	--

JOURNAL

1. Pref sh. final call A/c Dr. (50,000 x 30) 1500,000
To 8th pref sh. cap 1500,000
2. Bank A/c Dr. 1500,000
To pref sh. final call 1500,000
3. Bank Dr. (50,000 x 20) 10,00,000
To eq. sh App A/c 10,00,000
4. Eq. sh. App Dr. 10,00,000
To Eq. sh. cap 10,00,000
5. Eq. sh. All Dr. (50,000 x 35) 1750,000
To Eq. sh. cap A/c 1250,000
To Sec. prem A/c 500,000
6. Bank A/c Dr. 1750,000
To Eq. sh. All A/c 1750,000
7. 8th pref sh. cap Dr. 50,00,000
Prem on Red Dr. 250,000
To Pref sh. A/c 5250,000
8. Pref sh. 5250,000
To Bank 5250,000

9. Gen Res Dr. 2750.000
To CRR 2750.000

10. Gen Res Dr. 250.000
To prem on Red 250.000

1. Redemption of partly paid up pref sh.

a) Only partly paid shares are given

Call Money is Received & Shares are redeemed.

b) When fully paid up as well as partly paid up shares are given.

Fully paid up shares are redeemed.

2. Pref shares are fully called up but partly paid up

↳ Calls in Arrear.

a. Redemption will be done after calls in Arrear are received.

b. If Shares are to be forfeited:

(i) Pref sh cap Dr
To Calls in Arrear
To Sh. forb A/c

(ii) Sh. forb Dr
To cap Res A/c.

CA Hardik Manchanda

ILLUSTRATION 10

With the help of the details in Illustration 9 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. (Ignore date column)

<u>WNI</u>	FV of pref sh. Redeemed -	4800.000
	(-) Proceeds of Issue of eq. shares upto date of Red C (50,000 x 45)	<u>2260.000</u>
	CRR	<u><u>25,50.000</u></u>

JOURNAL

- | | |
|---|----------|
| Pref sh. final call A/c Dr. (50,000 x 30) | 1500.000 |
| To 8+ pref sh. cap | 1500.000 |
- | | |
|--------------------------------|----------|
| Bank A/c Dr | 1440.000 |
| Calls in Arrear Dr (2000 x 30) | 60.000 |
| To pref sh. final call | 1500.000 |
- | | |
|------------------------------|---------|
| Pref sh. cap Dr (2000 x 100) | 200.000 |
| To calls in Arrear | 60.000 |
| To sh. forf. | 140.000 |

4. Bank Dr (50,000 x 20) 10,00,000
 To eq. sh App A/c 10,00,000
5. Eq. sh. App Dr 10,00,000
 To Eq. sh. cap 10,00,000
6. Eq. sh. All Dr (50,000 x 35) 1750,000
 To Eq. sh. cap A/c 1250,000
 To Sec. prem A/c 500,000
7. Bank A/c Dr 1750,000
 To Eq. sh. All A/c 1750,000
8. 8% pref sh cap (48000 x 100) 4800,000
 Prem on Red. 240,000
 To pref sh. 5040,000
9. Pref sh. cap A/c Dr 5040,000
 To Bank 5040,000
10. Gen. Res Dr 2550,000
 To CRR 2550,000
11. Gen. Res Dr 240,000
 To prem on Red 240,000
12. Sh. for 140,000
 To Cap Res 140,000

2. 12.1. pref sh. cap Dr. 180.000
 ↓ Prem on Red Dr. 36000
 To pref sh. 216000 - Cr.
3. Pref sh. Dr (216000 - 1200) 214800 - Dr.
 To Bank 214800
4. Gen Res Dr 120.000
 P&L Dr 30.000
 To CRR 150.000
5. CRR Dr. 120.000
 To Bonus to Sh. 120.000
6. Bonus to Sh. Dr. 120.000
 To Eq. sh cap 120.000
7. P&L A/c Dr. 36000
 To prem on Red. 36000
-

True and False

1. When shares are redeemed by utilising distributable profit, an amount equal to the face value of shares redeemed is transferred to Capital Reserve account by debiting the distributable profit. **F** ^{FR} CRR
2. A company who prepares financial statements in compliance with Accounting Standards under Section 133 of the Companies Act, 2013, it cannot utilize securities premium for the purpose of providing for premium on the redemption of Redeemable Preference shares of the Company. **T**
3. The balance in forfeited shares account can be used for transfer to capital redemption reserve account. **F**
4. Capital redemption reserve cannot be used for writing off miscellaneous expenses and losses **T** Bonus

CA Hardik Manu
Syllabus Over :)