

## REDEMPTION OF PREFERENCE SHARES

### Solution 1

#### Journal Entries in the books of Hinduja Company Ltd.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
-	Bank A/c Dr.		5,00,000	
	To Equity Share Capital A/c			5,00,000
	(Being the issue of 50,000 Equity Shares of 10 each at par for the purpose of redemption of preference shares, as per Board Resolution No ..... dated...)			
-	8% Redeemable Preference Share Capital A/c Dr.		5,00,000	
	To Preference Shareholders A/c			5,00,000
	(Being amount payable on redemption of preference shares transferred to Preference Shareholders A/c)			
	Preference Shareholders A/c Dr.		5,00,000	
	To Bank A/c			5,00,000
	(Being the amount paid on redemption of preference shares)			

### Solution 2

#### Journal Entries in the books of G India Ltd.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
-	Bank A/c Dr.		90,000	
	To Equity Share Capital A/c			90,000
	(Being the issue of 10,000 Equity Shares of 9 each at par for the purpose of redemption of preference shares, as per Board Resolution No ..... dated...)			
-	10% Redeemable Preference Share Capital A/c Dr.		90,000	
	To Preference Shareholders A/c			90,000
	(Being amount payable on redemption of preference shares transferred to Preference Shareholders A/c)			
	Preference Shareholders A/c Dr.		90,000	
	To Bank A/c			90,000
	(Being the amount paid on redemption of preference shares)			

### Solution 3

#### Journal Entries in the books of ABC Ltd.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
-	10% Redeemable Preference Share Capital A/c Dr.		1,00,000	
	To Preference Shareholders A/c			1,00,000
	(Being amount payable on redemption of preference shares transferred to Preference Shareholders A/c)			
	Preference Shareholders A/c Dr.		1,00,000	
	To Bank A/c			1,00,000
	(Being amount paid on redemption of pref. shares)			
	General Reserve A/c Dr.		75,000	
	Profit & Loss A/c Dr.		25,000	
	To Capital Redemption Reserve A/c			1,00,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

**Note:** Securities premium & capital reserve cannot be utilised for transfer to Capital Redemption Reserve.

The copyright of these notes is with C.A. Nitin Goel

No part of these notes may be reproduced in any manner without his prior permission in writing.

**Solution 4****Journal Entries in the books of ABC Ltd.**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
-	10% Redeemable Preference Share Capital A/c Dr.		1,50,000	
	Premium on Redemption of Pref. Shares A/c Dr.		15,000	
	To Preference Shareholders A/c			1,65,000
	(Being amount payable on redemption of preference shares transferred to Preference Shareholders A/c)			
	Preference Shareholders A/c Dr.		1,65,000	
	To Bank A/c			1,65,000
	(Being the amount paid on redemption of preference shares)			
	General Reserve A/c Dr.		1,00,000	
	Profit & Loss A/c Dr.		50,000	
	To Capital Redemption Reserve A/c			1,50,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			
	Profit & Loss A/c Dr.		15,000	
	To Premium on Redemption of Pref. Shares A/c			15,000
	(Being premium on redemption charged to P&L A/c)			

**Note:** Capital reserve cannot be utilized for transfer to Capital Redemption Reserve.

**Solution 5****Journal Entries**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
-	10% Redeemable Preference Share Capital A/c Dr.		1,50,000	
	Premium on Redemption of Pref. Shares A/c Dr.		15,000	
	To Preference Shareholders A/c			1,65,000
	(Being amount payable on redemption of preference shares transferred to Preference Shareholders A/c)			
	Preference Shareholders A/c Dr.		1,65,000	
	To Bank A/c			1,65,000
	(Being amount paid on redemption of pref. shares)			
	General Reserve A/c Dr.		1,12,500	
	Profit & Loss A/c Dr.		37,500	
	To Capital Redemption Reserve A/c			1,50,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			
	Profit & Loss A/c Dr.		15,000	
	To Premium on Redemption of Pref. Shares A/c			15,000
	(Being premium on redemption charged to P&L A/c)			

**Note:** Securities premium & capital reserve cannot be utilized for transfer to Capital Redemption Reserve

**Solution 6****In the books of Dheeraj Limited Journal Entries**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr.		4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being the issue of 40,000 equity shares of ₹ 10 each at par as per Board's resolution No.....dated.....)			
	Bank A/c Dr.		2,00,000	
	To 12% Debentures A/c			2,00,000

The copyright of these notes is with C.A. Nitin Goel

No part of these notes may be reproduced in any manner without his prior permission in writing.

	(Being the issue of 2,000 Debentures of ₹ 100 each as per Board's Resolution No.....dated.....)			
-	10% Redeemable Preference Share Capital A/c Dr.		5,00,000	
	Premium on Redemption of Preference shares A/c Dr.		50,000	
	To Preference Shareholders A/c			5,50,000
	(Being amount payable on redemption of preference shares transferred to Preference Shareholders A/c)			
	Preference Shareholders A/c Dr.		5,50,000	
	To Bank A/c			5,50,000
	(Being the amount paid on redemption of preference shares)			
	Profit & Loss A/c Dr.		50,000	
	To Premium on Redemption of Pref. shares A/c			50,000
	(Being Premium on redemption of preference shares written off)			
	Profit & Loss A/c Dr.		1,00,000	
	To Capital Redemption Reserve A/c			1,00,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

**Amount to be transferred to CRR:**

Nominal Value of preference shares to be redeemed =	5,00,000
Less: Nominal Value of shares issued =	(4,00,000)
Amount =	1,00,000

**Note:** Proceeds of fresh issue of equity shares can be used for the purpose of redemption of preference shares but not the proceeds of issue of debentures

**Solution 7****Journal Entries in the books of Kalpana Ltd.**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr.		1,89,000	
	To Equity Share Capital A/c			1,80,000
	To Securities Premium A/c			9,000
	(Being the issue of 18,000 Equity Shares of 10 each at 5% premium for the purpose of redemption of preference shares, as per Board Resolution No .....			
-	12% Redeemable Preference Share Capital A/c Dr.		2,00,000	
	Premium on Redemption of Preference shares A/c Dr.		20,000	
	To Preference Shareholders A/c			2,20,000
	(Being amount payable on redemption of preference shares transferred to Preference Shareholders A/c)			
	Preference Shareholders A/c Dr.		2,20,000	
	To Bank A/c			2,20,000
	(Being the amount paid on redemption of preference shares)			
	Surplus A/c Dr.		20,000	
	To Premium on Redemption of Pref. shares A/c			20,000
	(Being Premium on redemption of preference shares written off)			
	Surplus A/c Dr.		20,000	
	To Capital Redemption Reserve A/c			20,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

Nominal value of preference shares ₹ 2,00,000

Premium on redemption 10% of ₹ 2,00,000 = ₹ 20,000

Premium on redemption payable out of Profits/Surplus A/c = 20,000

Profits available for redemption 40,000-20,000 = ₹ 20,000 (Transfer to CRR)

Minimum proceeds 2,00,000 - 20,000 = ₹ 1,80,000

Minimum number of shares 1,80,000/10 = 18,000 shares

### Solution 8

#### Journal Entries

S.No.	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1	Bank A/c Dr.		84,500	
	To Equity Share Capital A/c			84,500
	(Being the issue of 8,450 Equity Shares @ 10 per share)			
2	9% Preference Share Capital A/c Dr.		2,00,000	
	Premium on Redemption of Preference shares A/c Dr.		20,000	
	To Preference Shareholders A/c			2,20,000
	(Being amount payable on redemption of preference shares transferred to Preference Shareholders A/c)			
3	Bank A/c Dr.		40,500	
	Profit & Loss A/c Dr.		4,500	
	To Investments A/c			45,000
	(Being investments sold at loss)			
4	Preference Shareholders A/c Dr.		2,20,000	
	To Bank A/c			2,20,000
	(Being amount paid on redemption of pref. shares)			
5	Profit & Loss A/c Dr.		20,000	
	To Premium on Redemption of Pref. shares A/c			20,000
	(Being Premium on redemption of preference shares written off)			
6	General Reserve A/c Dr.		80,000	
	Profit & Loss A/c Dr.		35,500	
	To Capital Redemption Reserve A/c			1,15,500
	(For transfer to CRR out of divisible profits an amount equivalent to excess of nominal value of preference shares over proceeds i.e., 2,00,000-84,500)			

#### Balance Sheet (after redemption) (Extracts)

	Particulars	Note	Amount
I	<b>Equity and Liabilities</b>		
	Shareholders' funds		
	a) Share Capital	1	3,84,500
	b) Reserves and surplus	2	1,70,500
II	<b>Assets</b>		
	Current assets		
	a) Cash and cash equivalents	3	1,00,000

#### Notes to Accounts

No.	Particulars	Amount
1.	<b>Share Capital</b>	
	Issued & subscribed capital	

	38,450 Equity shares of ₹ 10 each	<u>3,84,500</u>
		<b><u>3,84,500</u></b>
2.	<b>Reserve &amp; Surplus:</b>	
	General Reserve	40,000
	Capital Redemption Reserve	1,15,500
	Profit and Loss Account	Nil
	Investment Allowance Reserve	15,000
		<b><u>1,70,500</u></b>
3.	<b>Cash and cash equivalents</b>	
	Cash at bank (1,95,000 + 84,500 + 40,500 – 2,20,000)	1,00,000
		<b><u>1,00,000</u></b>

**Working Note:****Calculation of Number of Shares:**

Face value of shares redeemed		2,00,000
Less: Profit available for distribution as dividend:		
General Reserve: (1,20,000-40,000)	80,000	
Profit and Loss (60,000 less 20,000 set aside for adjusting premium payable on redemption of Pref. shares less 4,500 loss on sale of investments)	<u>35,500</u>	(1,15,500)
		<b><u>84,500</u></b>

No. of shares =  $84,500/10 = 8,450$  shares

**Solution 9****Journal Entries**

S.No.	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1	Bank A/c Dr.		75,000	
	To Share Application A/c			75,000
	(For application money received on 1,250 shares @ 60 per share)			
2	Share Application A/c Dr.		75,000	
	To Equity Share Capital A/c			62,500
	To Securities Premium A/c			12,500
	(For disposition of application money received)			
3	8% Preference Share Capital A/c Dr.		1,30,000	
	Premium on Redemption of Preference shares A/c Dr.		13,000	
	To Preference Shareholders A/c			1,43,000
	(Being amount payable on redemption of preference shares transferred to Preference Shareholders A/c)			
4	Bank A/c Dr.		30,000	
	Profit & Loss A/c Dr.		7,000	
	To Investments A/c			37,000
	(Being investments sold at loss)			
5	Preference Shareholders A/c Dr.		1,43,000	
	To Bank A/c			1,43,000
	(Being amount paid on redemption of pref. shares)			
6	Profit & Loss A/c Dr.		13,000	
	To Premium on Redemption of Pref. shares A/c			13,000
	(Being Premium on redemption of preference shares written off)			
7	Profit & Loss A/c Dr.		67,500	
	To Capital Redemption Reserve A/c			67,500

The copyright of these notes is with C.A. Nitin Goel

No part of these notes may be reproduced in any manner without his prior permission in writing.

(For transfer to CRR out of divisible profits an amount equivalent to excess of nominal value of preference shares over proceeds i.e., 1,30,000 - 62,500)

**Balance Sheet of Clean Ltd. (after redemption)**

	Particulars	Note	Amount
I	<b>Equity and Liabilities</b>		
	(1) Shareholders' funds		
	a) Share Capital	1	5,12,500
	b) Reserves and surplus	2	88,500
	(2) Current Liabilities		
	a) Trade payables		1,13,000
			<b>7,14,000</b>
II	<b>Assets</b>		
	(1) Non Current assets		
	a) Property, Plant & Equipment & Intangible Assets		
	(i) Property, Plant & Equipment		6,90,000
	(2) Current assets		
	a) Cash and cash equivalents	3	24,000
			<b>7,14,000</b>

**Notes to Accounts**

No.	Particulars	Amount
1.	<b>Share Capital</b>	
	Issued & subscribed 10,250 Equity shares of ₹ 50 each	<u>5,12,500</u>
		<b>5,12,500</b>
2.	<b>Reserve &amp; Surplus:</b>	
	Capital Redemption Reserve	67,500
	Profit and Loss Account (96,000 - 13,000 - 7,000 - 67,500)	8,500
	Securities Premium	12,500
		<b>88,500</b>
3.	<b>Cash and cash equivalents</b>	
	Cash at bank (62,000 + 75,000 + 30,000 - 1,43,000)	24,000
		<b>24,000</b>

**Working Note:**

**Calculation of Number of Shares:**

Amount payable on redemption (1,30,000 + 10% Premium)	1,43,000
Less: Sale price of investment	(30,000)
	1,13,000
Less: Available bank balance (62,000 - 24,000)	(38,000)
Funds required from fresh issue	75,000

No. of shares = 75,000/60 = 1,250 shares

**Solution 10**

**Journal Entries**

S.No.	Particulars		Amount	Amount
1	10% Preference Share Final Call A/c	Dr.	6,00,000	
	To 10% Preference Share Capital A/c			6,00,000
	(For final call made on preference shares @ ₹ 20 each to make them fully paid up)			

The copyright of these notes is with C.A. Nitin Goel

No part of these notes may be reproduced in any manner without his prior permission in writing.

2	Bank A/c	Dr.	6,00,000	
	To 10% Preference Share Final Call A/c (For receipt of final call money on preference shares)			6,00,000
3	Bank A/c	Dr.	3,00,000	
	To Equity Share Application A/c (For receipt of application money on 1,50,000 equity shares @ ₹ 2 per share)			3,00,000
4	Equity Share Application A/c	Dr.	3,00,000	
	To Equity Share Capital A/c (For capitalization of application money received)			3,00,000
5	Equity Share Allotment A/c	Dr.	10,50,000	
	To Equity Share Capital A/c			7,50,000
	To Securities Premium A/c (For allotment money due on 1,50,000 equity shares @ ₹ 7 per share including a premium of ₹ 2 per share)			3,00,000
6	Bank A/c	Dr.	10,50,000	
	To Equity Share Allotment A/c (For receipt of allotment money on equity shares)			10,50,000
7	10% Preference Share Capital A/c	Dr.	30,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	3,00,000	
	To Preference Shareholders A/c (For amount payable to preference shareholders on redemption at 10 % premium)			33,00,000
8	General Reserve A/c	Dr.	3,00,000	
	To Premium on Redemption A/c (Writing off premium on redemption of preference shares)			3,00,000
9	General Reserve A/c	Dr.	19,50,000	
	To Capital Redemption Reserve A/c (For transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 30,00,000 – 3,00,000 - 7,50,000)			19,50,000
10	Preference Shareholders A/c	Dr.	33,00,000	
	To Bank A/c (For amount paid to preference shareholders)			33,00,000

### Balance Sheet (extracts)

	Particulars	Notes No.	As at 31.3.2022 ₹	As at 31.12.2021 ₹
	<b>EQUITY AND LIABILITIES</b>			
	Shareholders' funds			
1.	a) Share capital	1	70,50,000	84,00,000
	b) Reserves and Surplus	2	59,00,000	59,00,000

### Notes to Accounts:

		As at 31.3.2022	As at 31.12.2021
1.	<b>Share Capital</b>		
	Issued, Subscribed and Paid up:		
	6,00,000 Equity shares of ₹ 10 each fully paid up	60,00,000	60,00,000
	1,50,000 Equity shares of ₹ 10 each ₹ 7 paid up	10,50,000	-

	30,000, 10% Preference shares of ₹ 100 each, ₹ 80 paid up	-	24,00,000
		<b>70,50,000</b>	<b>84,00,000</b>
<b>2.</b>	<b>Reserves and Surplus</b>		
	Capital Redemption Reserve	37,50,000	18,00,000
	Securities Premium	9,00,000	6,00,000
	General Reserve	12,50,000	35,00,000
		<b>59,00,000</b>	<b>59,00,000</b>

**Note:**

Securities premium has not been utilized for the purpose of premium payable on redemption of preference shares assuming that the company referred in the question is governed by Section 133 of the Companies Act, 2013 and comply with the Accounting Standards prescribed for them.

Amount received (excluding premium) on fresh issue of shares till the date of redemption should be considered for calculation of proceeds of fresh issue of shares. Thus, proceeds of fresh issue of shares are ₹ 10,50,000 (₹ 3,00,000 application money plus ₹ 7,50,000 received on allotment towards share capital) and balance ₹ 19,50,000 to taken from general reserve account.

**Solution 11****A company may prefer issue of new equity shares in the following situations:**

- When the company realizes that the capital is needed permanently and it makes more sense to issue Equity Shares in place of Redeemable Preference Shares which carry a fixed rate of dividend.
- When the balance of profit, which would otherwise be available for dividend, is insufficient.
- When the liquidity position of the company is not good enough.

**Advantages of redemption of preference shares by issue of fresh equity shares**

- No cash outflow of money is required – now or later.
- New equity shares may be valued at a premium.
- Shareholders retain their equity interest.

**Disadvantages of redemption of preference shares by issue of fresh equity shares**

- There will be dilution of future earnings;
- Share-holding in the company is changed.