



## CHAPTER-5

# REDEMPTION OF PREFERENCE SHARES

### Redemption of Preference Shares out of Fresh Issue of Shares

#### Question-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.

#### Solution

In the books of Hinduja Company Limited

#### Journal Entries

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
	8% preference Share capital A/c	Dr.		5,00,000	
	To Preference Shareholders A/c				5,00,000
	Bank A/c	Dr.		5,00,000	
	To Equity Share Capital A/c (50,000 x 10)				5,00,000
	Preference Shareholders A/c	Dr.		5,00,000	
	To Bank A/c				5,00,000

### Redemption of Preference Shares out of Profits

#### Question-2

T Ltd. furnishes you with the following Balance Sheet as at 31st March, 2021: (₹ in Lakhs)

Particulars	Amount (₹)	
Equity shares of ₹ 10 each fully paid		400
12% redeemable preference shares of ₹ 100 each fully paid		200
Reserves and surplus:		



- Capital reserve	15	
- Share Premium	25	
- Revenue reserves	260	300
		900
<b>Funds Employed in:</b>		
Property Plant and Equipment less depreciation		560
Current assets	540	
Less: Current liabilities	200	340
		900

The company redeemed preference shares on 1st April 2021 at a premium of 10%.

You are required to pass journal entries to record the above.

### Solution

In the books of T Ltd.

#### Journal Entries

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
<b>i.</b>	<b>Due entry:</b>				
	12% preference Share capital A/c	Dr.		200	
	Premium on redemption of preference share A/c	Dr.		20	
	To Preference Shareholders A/c				220
<b>ii.</b>	<b>Payment Entry:</b>				
	Preference Shareholders A/c	Dr.		220	
	To Bank A/c				220
<b>iii.</b>	<b>Premium on redemption of preference share</b>				
	Securities premium A/c	Dr.		20	
	To Premium on redemption of preference share A/c				20
<b>iv.</b>	<b>Transfer to Capital Redemption reserve Account</b>				
	Revenue reserve A/c	Dr.		200	
	To capital Redemption Reserve A/c				200
	(Being creation of capital redemption reserve to the extent face value of preference shares redeemed)				



## Redemption of Preference Shares Partly out of Fresh Issue of Shares and Partly out of Profits

### Question-3

Mogari Limited has 10% Redeemable Preference share capital of ₹ 30,00,000 consisting of ₹ 10 shares fully paid up. The company wants to redeem these shares at 25% premium. The ledger accounts show the following balances:

	Amount (₹)
Securities premium	1,00,000
General Reserve	13,00,000
Profit & Loss Account (Cr.)	7,00,000

In order to facilitate the redemption of preference shares, the company decided the following:

- 1,20,000 Equity shares of ₹10 each were issued at 50% premium.
- 10,000, 12% Debenture of ₹100 each were issued at par.
- Investments of book value ₹5,00,000 were sold at ₹5,60,000.

Pass the necessary journal entries to record above transactions and redemption of preference shares.

(Dec-14, 8 Marks)

### Solution

In the books of Mogari Limited.

#### Journal Entries

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
	Bank A/c	Dr.		28,00,000	
	To Equity Share Application and Allotment A/c				18,00,000
	To Debenture Application A/c				10,00,000
	(Application money received on 1,20,000 equity shares @ ₹15 per share and on 10,000 debentures @ ₹10 each)				
	Equity Share Application and Allotment A/c	Dr.		18,00,000	
	To Equity Share Capital A/c				12,00,000
	To Securities premium A/c				6,00,000
	(Application money transferred)				
	Debentures Application A/c	Dr.		10,00,000	
	To 12% Debentures A/c				10,00,000



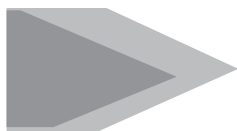
(Being Debenture Application money transferred to 12% Debenture A/c)				
Bank A/c	Dr.		5,60,000	
To Investment A/c				5,00,000
To Profit & Loss A/c				60,000
(Profit on Sale on investments)				
10% Preference Share capital A/c	Dr.		30,00,000	
Premium on redemption of preference share A/c	Dr.		7,50,000	
To Preference Shareholders A/c				37,50,000
(Being 10% Redeemable preference shares due for redemption)				
Security Premium A/c	Dr.		7,00,000	
General Reserve A/c	Dr.		50,000	
To Premium on redemption of preference share A/c				7,50,000
(Being amount of premium on redemption of Preference shares adjusted)				
General Reserve A/c	Dr.		12,50,000	
Profit & Loss A/c	Dr.		5,50,000	
To Capital Redemption Reserve A/c				18,00,000
(Being amount equal to the nominal value of Preference shares redeemed out of Profit, transferred to Capital Redemption Reserve)				
Preference Shareholders A/c	Dr.		37,50,000	
To Bank A/c				37,50,000
(Being the amount due on redemption paid)				

**Note:** Preference shares are redeemed either out of distributable profits or proceeds from fresh issue of shares or both. Preference shares of ₹ 12,00,000 redeemed through fresh issue of equity shares and remaining of ₹18,00,000 redeemed out of profits.

#### Question-4

The following is the Balance Sheet of COWIJ limited as on 31st March 2017:

Liabilities	Amount (₹)	Assets	Amount (₹)
50,000 Equity Shares of ₹10 each, ₹8 per share called up and paid up	4,00,000	Fixed Assets	6,00,000



5,000, 13% Redeemable Preference Shares of ₹100 each	5,00,000	Investments [Face Value ₹1,25,000]	2,00,000
Securities Premium	98,000	Inventories	2,00,000
General Reserve	90,000	Trade Receivables	2,00,000
Profit & Loss A/c	1,12,000	Cash at Bank	3,00,000
Trade Payables	3,00,000		
	15,00,000		15,00,000

The Company resolved:

- To convert the partly paid-up equity shares into fully paid-up on 1st April, 2017 without requiring the shareholders to pay for the same.
- To redeem the preference shares on 30th April at a premium of 7.5 % and for this purpose to issue 3,000 12% preference shares of ₹100 each at a premium of 10% payable in full on application.
- The resolutions were carried into effect. For the purpose of the above redemption, on 29th April, the company sold its fixed assets having book value of ₹ 3,00,000 for ₹3,82,500 and all the investments @ 208%.
- On 31st May, all payments were made on redemption except to holders of 200 shares who could not be traced.
- On 30th June, the Directors issued fully paid bonus shares to the then shareholders at the rate of 3 for 5 held at a premium of 5%.

Required: Pass necessary Journal Entries in the books of the company to record the above transactions.

(2012 Syllabus Dec-17, 10 Marks)

### Solution

In the books of COWIJ Limited.

#### Journal Entries

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
01.04.17	Equity Final Call A/c	Dr.		1,00,000	
	To Equity Share Capital A/c				1,00,000
	(Being the final call of ₹ 2 per share due on 50,000 shares as per Board's Resolution dated...)				
01.04.17	General Reserve A/c	Dr.		90,000	
	Profit & Loss A/c	Dr.		10,000	
	To Bonus to Shareholders A/c				1,00,000



	(Being the bonus declared as per shareholders resolution date...)				
01.04.17	Bonus to shareholders A/c	Dr.		1,00,000	
	To Equity Share Final Call A/c				1,00,000
	(Being the utilisation of bonus payable towards payment of final call)				
29.04.17	Bank A/c	Dr.		3,82,500	
	To Fixed Assets A/c				3,00,000
	To Profit & Loss A/c				82,500
	(Being the sale of fixed assets costing ₹ 3,00,000 for the purpose of redemption of shares at a profit of ₹82,500)				
29.04.17	Bank A/c [1,25,000 x 208%]	Dr.		2,60,000	
	To Investments A/c				2,00,000
	To profit & Loss A/c				60,000
	(Being the investments sold for the purpose of redemption of shares at a profit of ₹ 60,000)				
30.04.17	Bank A/c	Dr.		3,30,000	
	To Preference share application & Allotment A/c				3,30,000
	(Being the receipt of application money)				
30.04.17	Preference share Application & Allotment A/c	Dr.		3,30,000	
	To 12% Preference Share Capital A/c				3,00,000
	To Securities Premium A/c				30,000
	(Being the amount received on issue of 3,000 12% preference shares of ₹ 100 each at a premium of 10% for the purpose of redemption of shares as per Board's Resolution dated....)				
30.04.17	13% Redeemable Preference Share Capital A/c	Dr.		5,00,000	
	Premium on Redemption of preference shares A/c	Dr.		37,500	
	To Preference shareholders A/c				5,37,500
	(Being the amount payable on redemption including premium transferred to redemption				



	preference shareholders Account)				
	Securities Premium A/c	Dr.		37,500	
	To Premium on Redemption of Preference shares A/c				37,500
	(Being the premium on redemption of share @ 7.5 % provide out of share premium Account)				
30.04.17	Profit & Loss A/c	Dr.		2,00,000	
	To Capital Redemption Reserve A/c				2,00,000
	(Being the amount transferred out of profit & loss Account to capital Redemption Reserve Account of an amount equal to nominal value of preference shares redeemed otherwise than out of the proceeds of fresh shares issued as required under companies Act)				
31.05.17	Preference shareholders' A/c	Dr.		5,16,000	
	To Bank A/c				5,16,000
	(Being the amount due on redemption paid in full except to holders of 200 shares) 4,800 x 107.5				
30.06.17	Capital Redemption Reserve A/c	Dr.		2,00,000	
	Securities premium A/c	Dr.		90,500	
	Profit & Loss A/c	Dr.		24,500	
	To Bonus payable A/c				3,15,000
	(being the bonus declared as per shareholders' resolution dated..... for issuing fully paid shares)				
30.06.17	Bonus payable A/c	Dr.		3,15,000	
	To Equity share Capital A/c				3,00,000
	To securities premium A/c				15,000
	(Being the issue of 30,000 fully paid shares of ₹ 10 each as bonus shares in the ratio of 3 for 5 as per Board's resolution dated.....)				

**Question-5**

The Books of Arpit Ltd. shows the following Balances as on 31st December, 2019:

Particulars	Amount (₹)
6,00,000 Equity shares of ₹ 10 each fully paid up	60,00,000
30,000, 10% Preference shares of ₹ 100 each, ₹ 80 paid up	24,00,000
Securities Premium	6,00,000
Capital Redemption Reserve	18,00,000
General Reserve	35,00,000

Under the terms of issue, the Preference Shares are redeemable on 31st March, 2020 at a premium of 10%. In order to finance the redemption, the Board of Directors decided to make a fresh issue of 1,50,000 Equity shares of ₹10 each at a premium of 20%, ₹ 2 being payable on application, ₹ 7 (including premium) on allotment and the balance on 1st January, 2021. The issue was fully subscribed and allotment made on 1st March, 2020. The money due on allotment was received by 20th March, 2020.

The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act, 2013.

You are required to pass the necessary Journal Entries and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out on 31st March, 2020.

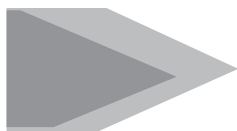
**Solution**

In the books of Arpit Ltd.

**Journal Entries**

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
	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 made them fully paid up)				
	Bank A/c	Dr.		6,00,000	
	To 10% Preference Share Final Call A/c				6,00,000
	(For receipt of final call money on preference shares)				
	Bank A/c	Dr.		3,00,000	
	To Equity Share Application A/c				3,00,000
	(For receipt of Application money on 1,50,000 equity shares @ ₹ 2 per share)				





Equity Share Application A/c	Dr.	3,00,000	
To Equity Share Capital A/c			3,00,000
(For capitalization of application money received)			
Equity share Allotment A/c	Dr.	10,50,000	
To Equity Share Capital A/c			7,50,000
To Securities Premium A/c			3,00,000
(For allotment money due on 1,50,000 equity shares @ ₹7 per share including a premium of ₹2 per share)			
Bank A/c	Dr.	10,50,000	
To Equity Share Allotment A/c			10,50,000
(For receipt of allotment money on equity shares)			
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			33,00,000
(For amount payable to preference shareholders on redemption at 10% premium)			
Securities Premium A/c	Dr.	3,00,000	
To Premium on Redemption A/c			3,00,000
(Writing off premium on redemption of preference shares)			
General Reserve A/c	Dr.	19,50,000	
To Capital Redemption Reserve A/c			19,50,000
(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)			
Preference Shareholders A/c	Dr.	33,00,000	
To Bank A/c			33,00,000
(For amount paid to preference shareholders)			

**Balance Sheet (extracts)**

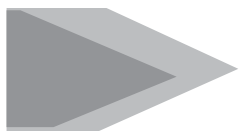
	Particulars	Notes No.	As at 31.03.2020	As at 31.12.2019
			Amount (₹)	Amount (₹)
	<b>EQUITY AND LIABILITIES</b>			
<b>1.</b>	<b>Shareholders' fund</b>			
	a) Share capital	<b>1</b>	<b>70,50,000</b>	<b>84,00,000</b>
	b) Reserve and Surplus	<b>2</b>	<b>59,00,000</b>	<b>59,00,000</b>

**Notes to Accounts:**

		As at 31.03.2020	As at 31.12.2019
<b>1.</b>	<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:**

1. 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.

**Calculation of Shares to be Issued [Purpose – Amount to be transferred to CRR]****Question-6**

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-

Particulars	Amount (₹)
General Reserve	80,000
Profit and Loss Account	18,000
Investment Allowance Reserve out of which ₹ 5,000 not free for distribution as dividend	10,000
Securities Premium	2,000
Cash at bank	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 and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out.

**Solution**

In the books of  
Journal Entries

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
	Bank A/c	Dr.		25,000	
	To Equity Share Capital A/c				25,000
	(Being the issue of 2,500 Equity Shares of ₹ 10 each as per Board's Resolution No.... dated.....)				
	General Reserve A/c	Dr.		60,000	
	Profit & Loss A/c	Dr.		10,000	
	Investment Allowance Reserve A/c	Dr.		5,000	
	To Capital Redemption Reserve A/c				75,000
	(Being the amount transferred to Capital				



	Redemption Reserve Account as per the requirement of the Act)				
	8% Redeemable Preference Share Capital A/c	Dr.		1,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.		10,000	
	To Preference Shareholders A/c				1,10,000
	(Being the amount paid on redemption transferred to Preference Shareholders Account)				
	Preference Shareholders A/c	Dr.		1,10,000	
	To Bank A/c				1,10,000
	(Being the amount paid on redemption of preference shares)				
	Securities Premium A/c	Dr.		8,000	
	Profit & Loss A/c	Dr.		2,000	
	To Premium on Redemption of Preference Shares A/c				10,000
	(Being the premium payable on redemption is adjusted against)				

**Balance Sheet as at .....[Extracts]**

	Particulars	Notes	Amount (₹)
	<b>EQUITY AND LIABILITIES</b>		
1.	Shareholders' funds		
a	Share capital	1	2,25,000
b	Reserves and Surplus	2	1,00,000
	<b>ASSETS</b>		
2.	Current Assets		
	Cash and cash equivalents (98,000 + 25,000 – 1,10,000)		13,000

**Notes to Accounts**

<b>1.</b>	<b>Share Capital</b>	
	22,500 Equity shares (20,000 + 2,500) of ₹10 each fully paid up	2,25,000
<b>2.</b>	<b>Reserves and Surplus</b>	



	General Reserve	20,000
	Capital Redemption Reserve	75,000
	Investment Allowance Reserve	5,000
		1,00,000

**Working Note:****No of Shares to be issued for redemption of Preference Shares:**

Particulars	Details	Amount (₹)
Face value of shares redeemed		1,00,000
Less: Profit available for distribution as dividend:		
General Reserve: (80,000-20,000)	60,000	
Profit and Loss (18,000 – 8,000, set aside for adjusting premium payable on redemption of preference shares)	10,000	
Investment Allowance Reserve: (10,000-5,000)	5,000	75,000
		25,000

Therefore, No. of shares to be issued =  $25,000/10 = 2,500$  shares.

**Question-7**

The capital structure of a company consists of 1,20,000 Equity Shares of ₹ 10 each fully paid up and 4,000 6% Redeemable Preference Shares of ₹ 100 each fully paid up. The company has following balances

Particulars	Amount (₹)
General Reserve	2,80,000
Profit and Loss Account (Cr.)	40,000
Investment Allowance Reserve ( not free for distribution as dividend)	80,000
Securities Premium	44,000

Preference shares are to be redeemed at a Premium of 10%. The company decided to make a fresh issue of Equity Shares at par and to use profits and reserved in a manner so that a minimum balance of ₹ 40,000 is maintained in general reserve.

Show the Journal Entries to give effect of the above arrangements. Assume that the Company does not belong to the prescribed class of Companies recognized for the purpose of redemption.

(2016 Syllabus Dec-23, 8 Marks)

**Solution****In the books of  
Journal Entries**

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
	Bank A/c	Dr.		1,20,000	
	To Equity Share Capital A/c				1,20,000
	(Being the issue of 12,000 Equity Shares of ₹ 10 each as per Board's Resolution No.... dated.....)				
	General Reserve A/c	Dr.		2,40,000	
	Profit & Loss A/c	Dr.		40,000	
	To Capital Redemption Reserve A/c				2,80,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)				
	6% Redeemable Preference Share Capital A/c	Dr.		4,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.		40,000	
	To Preference Shareholders A/c				4,40,000
	(Being the amount paid on redemption transferred to Preference Shareholders Account)				
	Preference Shareholders A/c	Dr.		4,40,000	
	To Bank A/c				4,40,000
	(Being the amount paid on redemption of preference shares)				
	Securities Premium A/c	Dr.		40,000	
	To Premium on Redemption of Preference Shares A/c				40,000
	(Being the premium payable on redemption is adjusted against)				

**Working Note:****No of Shares to be issued for redemption of Preference Shares:**

Particulars	Details	Amount (₹)
Face value of shares redeemed		4,00,000



Less: Profit available for distribution as dividend:		
General Reserve: (2,80,000-40,000)	2,40,000	
Profit and Loss	40,000	(2,80,000)
		1,20,000

Therefore, No. of shares to be issued =  $1,20,000/10 = 12,000$  shares.

### **Question-8**

The Capital structure of a company BK Ltd., consists of 30,000 Equity Shares of ₹ 10 each fully paid up and 2,000 9% Redeemable Preference Shares of ₹ 100 each fully paid up as on 31.03.2020. the other particulars as at 31.03.2020 are as follows:

Particulars	Amount (₹)
General Reserve	1,20,000
Profit & Loss Account	60,000
Investment Allowance Reserve (not free for distribution as dividend)	15,000
Cash at bank	1,95,000

Preference Shares are to be redeemed at a premium of 10%. For the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at per after utilizing the undistributed Reserve & Surplus, subject to the conditions that a sum of ₹ 40,000 shall be retained in General Reserve and which should not be utilized. Company also sold investment of 4,500 Equity Shares in G Ltd., costing ₹45,000 at ₹ 9 per share.

Pass Journal entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet as at 31.03.2020 of BK Ltd., after the redemption is carried out.

### **Solution**

In the books of BK Ltd.

#### **Journal Entries**

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
	Bank A/c	Dr.		84,500	
	To Equity Share Capital A/c				84,500
	(Being the issue of 8,450 Equity Shares of ₹ 10 each as per Board's Resolution No.....dated.....)				
	9% 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 the amount paid on redemption transferred				



	to Preference Shareholders Account)				
	Bank A/c	Dr.		40,500	
	Profit and Loss A/c (loss on sale) A/c	Dr.		4,500	
	To Investment A/c				45,000
	(Being investment sold at loss of ₹ 4,500)				
	Preference Shareholders A/c	Dr.		2,20,000	
	To Bank A/c				2,20,000
	(Being the amount paid on redemption of Preference shares)				
	Profit & Loss A/c			20,000	
	To Premium on Redemption of Preference Shares A/c	Dr.			20,000
	(Being the premium payable on redemption is adjusted against Profit & Loss Account)				
	General Reserve A/c	Dr.		80,000	
	Profit & Loss A/c	Dr.		35,500	
	To Capital Redemption Reserve A/c				1,15,500
	(Being the amount transferred to Capital Redemption Reserve Account)				

**Balance Sheet as on [Extracts]**

	Particulars	Notes	Amount (₹)
	<b>EQUITY AND LIABILITIES</b>		
<b>1</b>	<b>Shareholders' funds</b>		
	a. Share capital	<b>1</b>	3,84,500
	b. Reserves and Surplus	<b>2</b>	1,70,500
	<b>ASSETS</b>		
<b>2</b>	<b>Current Assets</b>		
	Cash and cash equivalents		1,00,000
	(1,95,000 + 84,500 + 40,500 – 2,20,000)		

**Notes to accounts**

	Amount (₹)
<b>1. Share Capital</b>	
38,450 Equity shares (30,000 + 8,450) of ₹10 each fully paid up	3,84,500





<b>2.</b>	<b>Reserves and Surplus</b>	
	General Reserve	40,000
	Profit and loss account	NIL
	Capital Redemption Reserve	1,15,500
	Investment Allowance Reserve	15,000
		1,70,500

**Working Note:****No of Shares to be issued for redemption of Preference Shares:**

Particulars	Details	Amount (₹)
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 – 20,000, set aside for adjusting premium payable on redemption of preference shares less 4,500, being loss on sale of investments)	35,500	
		(1,15,500)
		84,500

Therefore, No. of shares to be issued =  $84,500 / ₹10 = 8,450$  shares.

**Question-9**

**X Ltd. has the following assets and liabilities as on 31.3.2017:**

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital		Property Plant and Equipments	22,00,000
Issued, Subscribed and fully paid-up		Current Assets	8,00,000
10,000 Equity Shares of ₹100 each	10,00,000		
5,000 Preference Shares of ₹100 each	5,00,000		
Capital Reserve (revaluation profit)	1,00,000		
Securities Premium A/c	1,00,000		
General Reserve	2,00,000		
Profit & Loss A/c	1,00,000		



Current Liabilities	10,00,000		
	30,00,000		30,00,000

The Preference Shares are to be redeemed at 10% premium. Fresh issue of equity shares is to be made to the extent it is required under the Companies Act for the purpose of this redemption. The shortfall in funds for the purpose of the redemption after utilizing the proceeds of the fresh issue are to be met by taking a bank loan. Show Journal Entries.

**Solution**

In the books of X Ltd.

**Journal Entries**

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
	Bank A/c	Dr.		2,00,000	
	To Equity Share Capital A/c				2,00,000
	(Being the issue of 2,000 Equity share of ₹100 each for redemption of preference shares as per Board's Resolution no.... dated...)				
	General Reserve A/c	Dr.		2,00,000	
	Profit and loss A/c	Dr.		1,00,000	
	To Capital Redemption Reserve A/c				3,00,000
	(Being the amount transferred to capital redemption Reserve)				
	Preference Share capital A/c	Dr.		5,00,000	
	Premium on redemption of presence shares A/c	Dr.		50,000	
	To Preference Shareholder A/c				5,50,000
	(Being the amount payable on redemption preference shares transferred to shareholders A/c)				
	Bank A/c	Dr.		3,50,000	
	To Bank Loan A/c				3,50,000
	(Being the necessary amount taken from Bank as loan for redeeming the preference shares)				
	Preference shareholders A/c	Dr.		5,50,000	
	To Bank A/c				5,50,000
	(Being the preference shareholder paid-off on				



	redemption)				
	Securities premium A/c	Dr.		50,000	
	To premium on Redemption of preference shares A/c				50,000
	(Being the premium payable on redemption transferred to securities premium A/c )				

**Working Notes:****1. Calculation of No. of Shares to be Issued**

	Amount (₹)
Face Value of Shares Redeemed	5,00,000
Less: Profits available for Dividend	3,00,000
Face value of preference shares to be issued	2,00,000

No. of Shares to be issued ₹ 2,00,000 / ₹ 100 = 2,000 shares

**2. Amount of loan from Bank**

Amount required for payment to Preference Shareholders = ₹5,50,000.

Amount received by issuing Equity Share is ₹ 2,00,000.

Therefore, ₹3,50,000 is to be taken from bank.

### Calculation of Shares to be Issued [Purpose - To Finance the Redemption] OR Loan to be Taken to Finance the Redemption

**Question-10**

Books of M Limited show the following balances on 31st December 2020

	Amount (₹)
15,000 Equity shares of ₹10 each fully paid	1,50,000
2,500 10% Preference shares of ₹100 each fully paid	2,50,000
500 8% Preference shares of ₹100, ₹ 70 paid up	35,000
General Reserve	75,000
Profit and Loss Account	1,60,000
Securities Premium	15,000
Investment	1,20,000
Cash at Bank	39,600

On 1st January 2021 the board of directors decided to redeem the fully paid preference shares at a premium of 8%. In order to pay of preference shareholders, the company also decided to sell the Investments and use companies fund and to raise the balance by issue



of sufficient number of equity shares of ₹10 each at a premium of ₹ 1 per share subject to leaving a minimum bank balance of ₹ 9,600 after such Redemption. Investments were sold at ₹1,08,000

Show the necessary journal entries (without narration) to record the transactions.

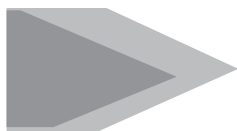
(2022 Syllabus June-23, 8 Marks)

### Solution

In the books of M Ltd.

#### Journal Entries

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
2023					
Jan 01	10% Redeemable Preference Shares Capital A/c	Dr.		2,50,000	
	Premium on Redemption of Preference Shares A/c	Dr.		20,000	
	To Preference Shareholders A/c				2,70,000
	(Being the redemption of 2,000, 8% Redeemable Preference Shares of ₹ 100 each at a premium of 8% as per Board's resolution no... dated...)				
	Bank A/c	Dr.		1,08,000	
	Loss on Sale of Investment A/c	Dr.		12,000	
	To Investments A/c				1,20,000
	(Being the sale of investment at a loss of ₹ 24,000)				
	Profit and Loss A/c	Dr.		12,000	
	To Loss on Sale of Investment A/c				12,000
	(Being the loss on sale of investment transferred to Profit and Loss Account)				
	Bank A/c	Dr.		1,32,000	
	To Equity Shares Application A/c				1,32,000
	(Being application money received for 24,000 shares of ₹11 each including a premium of ₹1 each)				
	Equity Shares Application A/c	Dr.		1,32,000	
	To Equity Shares Capital A/c				1,20,000



	To Securities Premium A/c				12,000
	(Being the transfer of application money on 12,000 shares @ ₹ 10 each to Equity Shares Capital Account and @ ₹ 1 to Securities Premium Account as per Board's Resolution No.....dated...)				
	Preference Shareholders A/c	Dr.		2,70,000	
	To Bank A/c				2,70,000
	(Being an amount paid to preference shareholders for redemption of preference shares.)				
	Securities Premium A/c	Dr.		15,000	
	Profit and Loss A/c	Dr.		5,000	
	To Premium for Redemption of Preference Shares A/c				20,000
	(Being the adjustment of premium on redemption against Securities Premium and Profit and Loss Account balance)				
	General Reserve A/c	Dr.		1,30,000	
	To Capital Redemption Reserve A/c				1,30,000
	(Being amount equivalent to the face value of shares redeemed out of reserves transferred to CRR)				

**Note:****1. Amount of cash to be collected from new issue of equity shares**

	Amount (₹)
Amount payable in redemption	2,70,000
Add: Minimum closing cash balance	9,600
	2,79,600
Less: Opening bank balance	(39,600)
Proceed from Sale of investment	(1,08,000)
	1,32,000

Therefore, number of shares to be issued will be =  $1,32,000 / (10+1) = 12,000$

Value per share = 10 +1 (including premium of ₹1)

**2. Amount to be transferred to Capital Redemption Reserve**

	Amount (₹)
Nominal value of shares to be redeemed	2,50,000
Less: Fresh Issue of Equity Shares	(1,20,000)
	1,30,000

**Question- 11**

The books of P Ltd. revealed the following balances on 31st December, 2021:

	Amount (₹)
30,000 Equity shares of ₹ 10 each fully paid	3,00,000
5,000, 10% Redeemable Preference Shares of ₹ 100 each fully paid	5,00,000
1,000, 8% Redeemable Preference Shares of ₹100 each, ₹70 paid up	70,000
General Reserve	1,50,000
Profit and Loss Account	3,20,000
Securities Premium	30,000
Investment	2,40,000
Cash at Bank	79,200

On 1st January, 2022 the Board of Directors decided to redeem the Preference Shares at a premium of 8%. Recommend a suitable redemption plan that fulfills the following requirements of the management:

- In order to pay off Preference Shareholders, the company will sell the investments, use company's fund.
- The company will raise the balance by the issue of sufficient number of Equity Shares of ₹ 10 each at a premium of ₹ 1 per share subject to leaving a minimum bank balance of ₹ 19,200 after such redemption.

Suppose, your recommendation has been accepted. Journalize the transactions. Assume that investments have been sold at ₹ 2,16,000.

**Solution**

In the books of P Ltd.

**Journal Entries**

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
2022					
Jan 01	10% Redeemable Preference Shares Capital A/c	Dr.		5,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.		40,000	



	To Preference Shareholders A/c				5,40,000
	(Being the redemption of 5,000, 10% Redeemable Preference Shares of ₹ 100 each at a premium of 8% as per Board's resolution no... dated...)				
	Bank A/c	Dr.		2,16,000	
	Loss on Sale of Investment A/c	Dr.		24,000	
	To Investments A/c				2,40,000
	(Being the sale of investment at a loss of ₹ 24,000)				
	Profit and Loss A/c	Dr.		24,000	
	To Loss on Sale of Investment A/c				24,000
	(Being the loss on sale of investment transferred to Profit and Loss Account)				
	Bank A/c	Dr.		2,64,000	
	To Equity Shares Application A/c				2,64,000
	(Being application money received for 24,000 shares of ₹11 each including a premium of ₹1 each)				
	Equity Shares Application A/c	Dr.		2,64,000	
	To Equity Shares Capital A/c				2,40,000
	To Securities Premium A/c				24,000
	(Being the transfer of application money on 24,000 shares @ ₹ 10 each to Equity Shares Capital Account and @ ₹ 1 to Securities Premium Account as per Board's Resolution No.....dated...)				
	Preference Shareholders A/c	Dr.		5,40,000	
	To Bank A/c				5,40,000
	(Being an amount paid to preference shareholders for redemption of preference shares.)				
	Securities Premium A/c	Dr.		30,000	
	Profit and Loss A/c	Dr.		10,000	
	To Premium for Redemption of Preference				40,000



	Shares A/c				
	(Being the adjustment of premium on redemption against Securities Premium and Profit and Loss Account balance)				
	General Reserve A/c	Dr.		2,60,000	
	To Capital Redemption Reserve A/c				2,60,000
	(Being amount equivalent to the face value of shares redeemed out of reserves transferred to CRR)				

**Notes:****1. Number of Shares to be issued**

	Amount (₹)
Cash required for redemption	5,40,000
Add: Cash balance to be maintained	19,200
	5,59,200
Less: Bank balance at present	(79,200)
: Sale of investments	(2,16,000)
Cash from New Issue of Shares	2,64,000

No. of equity shares to be issued =  $2,64,000 / 11 = 24,000$

**2. Adjustment of amount of Premium on Redemption of Preference Shares**

	Amount (₹)
Premium on Redemption of Preference Shares	40,000
Less: Securities Premium balance at the time of redemption	(30,000)
Amount to be adjusted against Profit and Loss Account	10,000

Note: Premium from new issue cannot be used as per the provisions of the Companies Act.

**3. Amount to be transferred to Capital Redemption Reserve**

	Amount (₹)
Face value of shares redeemed	5,00,000
Less: Proceeds from issue of equity shares (excluding premium)	(2,40,000)
	2,60,000



**Question-12**

The Balance Sheet of Pixel Ltd. as on 31.12.2021 is given below:

Liabilities	₹ in Lakh	Assets	₹ in Lakh
Share Capital:		Fixed Assets	140
10,00,000 Equity shares of ₹ 10 each	100	Investments	40
1,00,000 Redeemable Pref. shares of ₹ 100 each	100	Stock	46
Less: Call-in-arrears on 20,000 shares	(4)	Debtors	30
Security premium account	15	Bank	30
Reserve	30		
Profit and Loss account	15		
Creditors	30		
	286		286

Company decided to redeem fully paid preference shares at a premium of 20%. On 1st Jan 2022, fixed assets costing ₹ 40 Lakh were sold for ₹ 32 Lakh. It was decided that on 1st Feb 2022, company issued sufficient number of equity shares at par so as to finance redemption and to leaving a balance of ₹ 10 Lakh in the reserve. All the payments were made except to a holder of 10,000 shares who could not be traced. The company also made bonus issue to the existing equity shareholders in the ratio of 1:10 as on 31.12.2021.

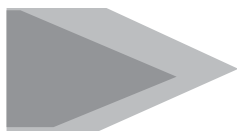
You are required to pass the necessary journal entries.

**Solution**

In the books of Pixel Ltd.

**Journal Entries**

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
	Bank A/c	Dr.		32	
	Profit and Loss A/c	Dr.		8	
	To Fixed Assets A/c				40
	(Sale of Fixed Assets, Loss transferred)				
	Bank A/c	Dr.		54	
	To Equity Share Capital A/c				54
	(Issue of new shares)				
	Redeemable Preference Share Capital A/c	Dr.		80	
	Premium on Redemption A/c	Dr.		16	



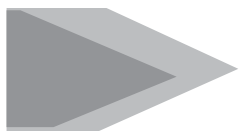
To Preference Shareholders A/c				96
(Amount due on Redemption)				
General Reserve A/c	Dr.		20	
Profit and Loss A/c	Dr.		6	
To Capital Redemption Reserve A/c				26
(Transfer of amount to Capital Redemption Reserve)				
Securities Premium A/c	Dr.		15	
Profit and Loss A/c	Dr.		1	
To Premium on Redemption A/c				16
(Transfer of Premium on Redemption on preference Shares)				
Preference Shareholders A/c	Dr.		84	
To Bank				84
(Payment to Preference Shareholders)				
Capital Redemption Reserve A/c	Dr.		10	
To Bonus to Shareholders A/c				10
(Bonus shares declared)				
Bonus to Shareholders A/c	Dr.		10	
To Equity Share Capital A/c				10
(Conversion of Bonus Shares to Equity Shares)				

**Notes:****1. Number of Shares to be issued**

	(₹ in Lakhs)
Face Value of Preference shares to be redeemed $(1,00,000 - 20,000) \times 100$	80
Less: Free Reserves available for transfer to Capital Redemption Reserve	
Profit and Loss A/c $[15 - 1 - 8]$	(6)
Reserve $[30 - 10]$	(20)
New Issue to be made at par	54

Actual payment made =  $(80,000 - 10,000) \times 120 = ₹ 84$  Lakhs

Bonus Shares =  $10,00,000 \times 1/10 = 1,00,000 @ ₹ 10 = ₹ 10$  Lakhs.

**2. Transfer to Capital Redemption Reserve**

	(₹ in Lakh)	(₹ in Lakh)
From Profit and Loss, A/c		
Balance	15	
Less: Loss on Sale of Assets	8	
Balance	7	
Less: Used for Premium on Redemption of Preference Shares	1	6
From General Reserve		20
<b>Total</b>		<b>26</b>

**Question-13**

The balance sheet of G Ltd as on 31.12.2018

	Amount (₹)
<b>Liabilities</b>	
Equity shares of ₹ 10 each	2,00,000
Less: Calls in arrear @ ₹ 2	10,000
14% Preference Shares of ₹ 100	1,00,000
Securities Premium	10,000
Investment Allowance Reserve	40,000
Development Rebate Reserve	20,000
Workmen Compensation Fund	10,000
Dividend Equalization Reserve	12,000
Profit and Loss Account	38,000
Unsecured Loans	80,000
	5,00,000
<b>Assets</b>	
Non-Current Assets	4,00,000
Current Assets (including Bank balance ₹10,000)	1,00,000
	5,00,000

The board of directors decided to redeem the preference shares on 1st January 2019 on the following conditions.

- Issue 4,000 equity shares and ₹ 50,000 10% debentures.
- Redeem preference shares at a premium of 10%.
- Raise necessary bank loan to provide funds for redemption and to have ₹ 15,000 as



balance.

iv. Admit claim of ₹ 4,000 for workmen compensation.

v. Utilise ₹ 10,000 out of development rebate reserve for the purpose.

Pass necessary journal entries assuming that holders of 100 reference shares could not be traced by the company.

### Solution

In the books of G Ltd.

#### Journal Entries

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
	Bank A/c	Dr.		40,000	
	To Equity Share Capital A/c				40,000
	(Being new shares issued)				
	Bank A/c	Dr.		50,000	
	To 10% Debentures A/c				50,000
	(Being new debenture issued)				
	14% Preference Share Capital A/c	Dr.		1,00,000	
	Premium on redemption A/c	Dr.		10,000	
	To Preference Shareholders A/c				1,10,000
	(Being Preference shares due for Redemption)				
	Securities Premium A/c	Dr.		10,000	
	To Premium on Redemption A/c				10,000
	(being amount of premium on redemption adjusted)				
	Development Rebate Reserve A/c	Dr.		10,000	
	Workmen Compensation Fund A/c	Dr.		6,000	
	Dividend Equalization Reserve A/c	Dr.		12,000	
	Profit and Loss A/c	Dr.		32,000	
	To Capital Redemption Reserve A/c				60,000
	(Being amount transferred to Capital Redemption Reserve)				
	Bank A/c	Dr.		25,000	
	To Bank Loan A/c				25,000
	(Being Bank Loan raised)				



	Preference Shareholders A/c	Dr.		99,000	
	To Bank A/c				99,000
	(Being Payment made except 100 shareholders who could not be traced)				
	Workmen Compensation Fund A/c	Dr.		4,000	
	To Claim for Workmen Compensation A/c				4,000

**Notes:****1. Bank Loan to be raised**

	Amount (₹)
Cash required for redemption	1,10,000
Add: Balance to be maintained	15,000
	1,25,000
Less: Bank balance at present	(10,000)
: Issue of Shares	(40,000)
: Issue of Debenture	(50,000)
	25,000



## Multiple Choice Questions

1. **Redemption of Preference Share of a Company is**
  - a. Compulsory
  - b. Optional
  - c. Conditional
  - d. None of the above
2. **A Company may issue Preference Shares for a period exceeding 20 Years for-**
  - a. Petrochemical Industries
  - b. Infrastructure Projects
  - c. Power Sector
  - d. None of the above
3. **At present, a company can issue preference shares which are**
  - a. irredeemable.
  - b. redeemable after the expiry of 20 years from the date of issue.
  - c. redeemable before the expiry of 20 years from the date of issue.
  - d. redeemable after the expiry of 25 years from the date of issue.
4. **Partly paid-up preference shares can be redeemed**
  - a. After obtaining the permission from Company Law Board
  - b. After passing a special resolution
  - c. After the permission from the Board of Directors
  - d. After making them fully paid up.
5. **Premium on redemption of redeemable preference shares can be paid out of**
  - a. Capital Redemption Reserve Account
  - b. Existing Shares Premium Account
  - c. Proceed of fresh issue of shares
  - d. All of the above
6. **Redeemable preference shares of ₹ 10,00,000 were to be redeemed @10% premium out of fresh issue of share capital. What amount shall be transferred to Capital Redemption Reserve Account?**
  - a. ₹ 10,00,000
  - b. ₹ 1,00,000
  - c. Nil
  - d. None of the above



**Answers**

<b>1.</b>	<b>2.</b>	<b>3.</b>	<b>4.</b>	<b>5.</b>	<b>6.</b>
a	b	c	d	b	c