

12. REDEMPTION OF PREFERENCE SHARES**ASSIGNMENT SOLUTIONS****PROBLEM NO. 1**

Journal Entries in the books of Hinduja Company Ltd.

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

PROBLEM NO. 2

Journal Entries in the books of

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. To Equity Share Capital A/c (Being the issue of 2,500 Equity Shares of Rs. 10 each at a par of Re. 1 per share as per Board's Resolution No. dated.....)	25,000	25,000
	8% Redeemable Preference Share Capital A/c Dr. Premium on Redemption of Preference Shares A/c Dr. To Preference Shareholders A/c (Being the amount paid on redemption transferred to Preference Shareholders Account)	1,00,000 10,000	1,10,000
	Preference Shareholders A/c Dr. To Bank A/c (Being the amount paid on redemption of preference shares)	1,10,000	1,10,000
	Profit & Loss A/c Dr. To Premium on Redemption of Preference Shares A/c (Being the premium payable on redemption is adjusted against Profit & Loss Account)	10,000	10,000
	General Reserve A/c Dr. Profit & Loss A/c Dr. Investment Allowance Reserve A/c Dr. To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	60,000 10,000 5,000	75,000

Balance Sheet as on[Extracts]

Date	Particulars	Notes No.	Amount (Rs.)
	EQUITY AND LIABILITIES		
1.	Shareholder's funds		
	a) Share capital	1	2,25,000
	b) Reserves and Surplus	2	1,02,000
	Total		?

ASSETS			
2.	Current Assets		
	Cash and cash equivalents (98,000 + 25,000 - 1,10,000)		13,000
	Total		?

Notes to accounts

1. Share Capital		
22,500 Equity shares (20,000 + 2,500) of Rs.10 each fully paid up		2,25,000
2. Reserves and Surplus		
General Reserve		20,000
Securities Premium		2,000
Capital Redemption Reserve		75,000
Investment Allowance Reserve		5,000
		1,02,000

Working Note:

No of Shares to be issued for redemption of Preference Shares:

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

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

PROBLEM NO. 3**Journal Entries in the books of B Limited**

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
20X1 Jan 1	12% Redeemable Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being the amount payable on redemption of 18,000 12% Redeemable Preference Shares transferred to Shareholders Account)	Dr. Dr.	1,80,000 36,000	2,16,000
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of 17,900 preference shares)	Dr.	2,14,800	2,14,800
	Bank A/c To Equity Share Capital A/c To Securities Premium A/c (Being the issue of 3,000 Equity Shares of Rs. 10 each at a premium of 10% as per Board's Resolution No..... Dated.....)	Dr.	33,000	30,000 3,000
	General Reserve A/c Profit & Loss A/c To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve A/c as per the requirement of the Act.)	Dr. Dr.	1,20,000 30,000	1,50,000
	Capital Redemption Reserve A/c To Bonus to Shareholders A/c (Being the amount appropriated for issue of bonus share in the ratio of 5:2 as per shareholders Resolution No..... dated...)	Dr.	1,20,000	1,20,000

Bonus to Shareholders A/c To Equity Share Capital A/c (Being the utilisation of bonus dividend for issue of 12,000 equity shares of Rs. 10 each fully paid)	Dr.	1,20,000	1,20,000
Profit & Loss A/c To Premium on Redemption of Preference Shares A/c (Being premium on redemption of preference shares adjusted against to Profit & Loss Account)	Dr.	36,000	36,000

Working Note:

- Partly paid-up preference shares cannot be redeemed.
- Amount to be Transferred to Capital Redemption Reserve Account
Face value of share to be redeemed Rs.1,80,000
Less: Proceeds from fresh issue (excluding premium) (Rs. 30,000)
Rs.1,50,000
- No bonus shares on 3,000 equity shares issued for redemption.

PROBLEM NO. 4

Preparing the necessary journal entries for the year ended 31st march 20X2

S.No	Particulars	Debit	Credit
1	Cash/Bank A/c P&L A/c To Investment A/c (Being investments Sold at 90% cost)	Dr. Dr. 90,000 10,000	1,00,000
2	Profit & Loss A/c To Preference Dividend A/c (Being Dividend for preference shareholders @ 10% is declared)	Dr. 10,000	10,000
3	Preference Dividend A/c To Cash/Bank A/c (Being Dividend for preference shareholders paid @ 10%)	Dr. 10,000	10,000
4	10% Redeemable Preference Share Capital Account A/c Premium on Redemption of Preference share capital A/c To Preference Shareholders A/c (Being Preference shares redeemed at 10% premium)	Dr. Dr. 1,00,000 10,000	1,10,000
5	Preference Shareholders A/c To Cash or Bank A/c (Being amount paid to preference shareholders on redemption)	Dr. 1,10,000	1,10,000
5	General Reserve A/c To Premium on Redemption of Preference share capital A/c (Beings Premium on redemption transferred to securities premium account)	10,000	10,000
6	General Reserve A/c To Capital Redemption Reserve A/c (Being amount equal to preference share capital due for redemption is transferred to CRR out of General reserves)	Dr. 1,00,000	1,00,000
7	Capital Redemption Reserve A/c To Bonus to Equity Shareholders A/c (Beings bonus shares are declared to equity share holders at 1 share for every 1 share held)	Dr. 1,00,000	1,00,000
8	Bonus to Equity Shareholders A/c To Equity share capital A/c (Being bonus shares issued at 1:1 ratio)	Dr. 1,00,000	1,00,000

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