

8. 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.	5,00,000	
	To Equity Share Capital A/c		5,00,000
	(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 Nodated.....)		
	8% Redeemable Preference Share Capital A/c Dr.	5,00,000	
	To Preference Shareholders A/c		5,00,000
	(Being the amount payable on redemption of preference shares transferred to Preference Shareholders Account)		
	Preference Shareholders A/c Dr.	5,00,000	
	To Bank A/c		5,00,000
	(Being the amount paid on redemption of preference shares)		

PROBLEM NO: 2

Journal Entries In the books of

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr.	25,000	
	To Equity Share Capital A/c		25,000
	(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.....)		
	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)		
	Profit & Loss A/c Dr.	10,000	
	To Premium on Redemption of Preference Shares A/c		10,000
	(Being the premium payable on redemption is adjusted against Profit & Loss Account)		
	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)		

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

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

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.

THE END

MASTER MINDS