

7. REDEMPTION OF PREFERENCE SHARES

SOLUTIONS TO ASSIGNMENT PROBLEMS

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 Nodated.....)	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 G India Limited.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. To Equity Share Capital A/c (Being the issue of 10,000 Equity Shares of Rs.9 each at par, as per Board's Resolution No.....Dated.....)	90,000	90,000
	10% Redeemable Preference Shares Capital A/c Dr. To Preference Shareholders A/c (Being the amount payable on redemption of preference sharestransferred to Preference Shareholders A/c)	90,000	90,000
	Preference Shareholders A/c Dr. To Bank A/c (Being the amount paid on redemption of preference shares)	90,000	90,000

PROBLEM NO.3

Nominal value of preference shares	Rs. 20,00,000
Maximum possible redemption out of profits	Rs. 15,00,000
Minimum proceeds of fresh issue	= Rs. 20,00,000 – 15,00,000 = Rs. 5,00,000
Proceed of one share	= Rs. 9
Minimum number of shares	= Rs. 5,00,000/9 = 55,555.55 shares

As fractional shares are not permitted, the minimum number of shares to be issued is 55,556 shares.

If shares are to be issued in multiples of 50, then the next higher figure which is a multiple of 50 is 55,600. Hence, minimum number of shares to be issued in such a case is 55,600 shares.

PROBLEM NO.4

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

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
	Bank A/c To Equity Share Capital A/c (Being the issue of 40,000 equity shares of Rs. 10 each at par as per Board's resolution No..... dated.....)	Dr.	4,00,000	4,00,000
	Bank A/c To 12% Debenture A/c (Being the issue of 2,000 Debentures of Rs. 100 each as per Board's Resolution No.....dated.....)	Dr.	2,00,000	2,00,000
	10% 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 transferred to Preference Shareholders Account)	Dr. Dr.	5,00,000 50,000	5,50,000
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of preference shares)	Dr.	5,50,000	5,50,000
	Profit & Loss A/c To Premium on Redemption of Preference Shares A/c (Being the adjustment of premium on redemption against Profits & Loss Account)	Dr.	50,000	50,000
	Profit & Loss A/c To Capital Redemption Reserve A/c (Working Note) (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	Dr.	1,00,000	1,00,000

Working Note:

Amount to be transferred to Capital Redemption Reserve Account

Face value of shares to be redeemed	Rs. 5,00,000
Less: Proceeds from new issue	(Rs. 4,00,000)
Balance	Rs. 1,00,000

PROBLEM NO.5

Part – I : REDEMPTION OF PREFERENCE SHARES

Books of H Ltd.

Journal Entries

S. No.	Particulars	L.F.	Debit	Credit
1.	Sales of Investments Bank A/c Profit & Loss A/c (Loss on sale of investments) To Investments A/c (Being amount realized on sale of investments and loss thereon adjusted)	Dr. Dr.	19,500 1,500	21,000
2.	Redemption of preference shares: a. Due 6% Redeemable Preference share Capital A/c Premium on redemption of Preference Shares A/c (30,000 x 5%)	Dr. Dr.	30,000 1,500	

	To Preference shareholders A/c (Being the amount payable to preference shareholders on redemption)			31,500
	b. Payments			
	Preference Shareholders A/c	Dr.	31,500	
	To Bank A/c (Being payment made to preference shareholder)			31,500
3.	Transfer to Capital Redemption Reserve:			
	General Reserve A/c	Dr.	30,000	
	To Capital Redemption Reserve (Being divisible profits utilized for redemption of preference shares transferred to Capital Redemption Reserve A/c)			30,000
4.	Write off of Redemption Premium:			
	Securities Premium A/c	Dr.	1,500	
	To Premium on Redemption of Preference Shares A/c (Being premium paid on redemption of preference shares written off against Securities premium A/c)			1,500

Part – II : ISSUE OF BONUS SHARES**Journal Entries**

S. No.	Particulars	L.F.	Debit	Credit
5	Appropriation of reserves:			
	Capital Redemption reserve A/c	Dr.	30,000	
	Securities premium A/c (29,000 – 1,500)	Dr.	27,500	
	General Reserve A/c (40,000 – 30,000)	Dr.	10,000	
	Profit and loss A/c (Bal.fig)	Dr.	2,500	
	To Bonus to Equity shareholders A/c (Being appropriation made for issue of bonus shares)			70,000
6	Allotment of Bonus shares:			
	Bonus to equity shareholders A/c	Dr.	70,000	
	To Equity share capital A/c (Being bonus shares allotted to shareholders)			70,000

* Bonus issue:

7 shares for every shares

$$= \left[6,000 \frac{7}{6} \right] \text{ shares} \times \text{Rs. } 10$$

$$= 7,000 \text{ bonus shares} \times \text{Rs. } 10 \text{ each} = \text{Rs. } 70,000$$

Balance Sheet of H. Ltd., as on 1st Aug, 2014

Particulars	Note No.	Rs.	Rs.
I. EQUITY AND LIABILITIES			
1. Shareholder's Funds			
a. Share capital			1,30,000
Issued, subscribed and fully paid up capital 13,000 equity shares of Rs. 10 each			
(Of the above 7,000 share were issued for consideration other than cash as bonus shares by capitalizing reserves)			

b. Reserves and surplus			20,500
Surplus in the statement of Profit and Loss A/c (24,500 – 1,500 – 2,500)			
2. Current Liabilities			
Trade payables			19,500
Total			1,70,000
II. ASSETS			
1. Non – Current Assets			
a. Fixed Assets			1,00,000
2. Current Assets			
a. Inventories		44,000	
b. Trade receivables		16,000	
c. Cash and Cash equivalents		10,000	70,000
Total			1,70,000

PROBLEM NO.6

Journal Entries in the books of ABC Limited

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
20X2	10% Redeemable Preference Share Capital A/c	1,50,000	
Jan 1	Dr.	15,000	
	Premium on Redemption of Share Capital A/c		1,65,000
	To Preference Shareholders A/c		
	(Being the amount payable on redemption transferred to Preference Shareholders Account)		
	Preference Shareholders A/c	1,65,000	
	Dr.		1,65,000
	To Bank A/c		
	(Being the amount paid on redemption of preference shares)		
	Profit & Loss A/c	15,000	
	Dr.		15,000
	To Premium on Redemption of Preference Shares A/c		
	(Being the premium payable on redemption is adjusted against Profit & Loss Account)		
	General Reserve A/c	1,00,000	
	Dr.	50,000	
	Profit & Loss A/c		1,50,000
	Dr.		
	To Capital Redemption Reserve A/c		
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)		

Note: Capital Reserve cannot be utilised for transfer to Capital Redemption Reserve.

PROBLEM NO.7

Journal Entries In the books of

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c	25,000	
	Dr.		25,000
	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.....)		

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.8

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)	<u>(Rs. 30,000)</u>
	<u>Rs.1,50,000</u>

- No bonus shares on 3,000 equity shares issued for redemption.

PROBLEM NO. 9**Journal Entries**

	Particulars		Dr. (Rs.)	Cr. (Rs.)
1	Bank A/c To Share Application A/c (For application money received on 1,250 shares @ Rs. 60 per share)	Dr.	75,000	75,000
2	Share Application A/c To Equity Share Capital A/c To Securities Premium A/c (For disposition of application money received)	Dr.	75,000	62,500 12,500
3	Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (For amount payable on redemption of preference shares)	Dr. Dr.	1,30,000 13,000	1,43,000
4	Profit and Loss A/c To Premium on Redemption of Preference Shares A/c (For writing off premium on redemption out of profits)	Dr.	13,000	13,000
5	Bank A/c Profit and Loss A/c (loss on sale) A/c To Investment A/c (For sale of investments at a loss of Rs.3,500)	Dr. Dr.	30,000 7,000	37,000
6	Preference Shareholders A/c To Bank (Being amount paid to Preference shareholders)	Dr.	1,43,000	1,43,000
7	Profit and Loss A/c To Capital Redemption Reserve A/c (For transfer to CRR out of divisible profits an amount equivalent to excess of nominal value of preference shares over proceeds (face value of equity shares) i.e., Rs. 1,30,000 - Rs.62,500)	Dr.	67,500	67,500

Balance Sheet of Clean Ltd. (after redemption)

	Particulars	Notes No.	Rs.
	EQUITY AND LIABILITIES		
1.	Shareholders' funds		
	a) Share capital	1	5,12,500
	b) Reserves and Surplus	2	88,500
2.	Current liabilities		
	Trade Payables		<u>1,13,000</u>
	Total		<u>7,14,000</u>
	ASSETS		
1.	Non-Current Assets		
	Property Plant and Equipments		
	Tangible asset		6,90,000
2.	Current Assets		
	Cash and cash equivalents (bank)	3	<u>24,000</u>
	Total		<u>7,14,000</u>

Notes to accounts

		Rs.
1.	Share Capital	
	Equity share capital Rs. (4,50,000 + 62,500)	5,12,500
2.	Reserves and Surplus	
	Capital Redemption Reserve	67,500
	Profit and Loss Account Rs. (96,000 – 13,000 – 7,000 – 67,500)	8,500
	Security Premium	12,500
		88,500
3.	Cash and cash equivalents	
	Balances with banks Rs. (62,000 + 75,000 +30,000 – 1,43,000)	24,000

Working Note:	Rs.
Calculation of Number of Shares:	
Amount payable on redemption (1,30,000 + 10% Premium)	1,43,000
Less: Sale price of investment	<u>(30,000)</u>
	1,13,000
Less: Available bank balance (62,000 - 24,000)	<u>(38,000)</u>
Funds required from fresh issue	<u>75,000</u>

PROBLEM NO.10

Journal entries in the books of PQR Ltd.

		Rs.	Rs.
10% Preference Share Final Call A/c To 10% Preference Share Capital A/c (For final call made on preference shares @ Rs. 20 each to make them fully paid up)	Dr.	20,00,000	20,00,000
Bank A/c To 10% Preference Share Final Call A/c (For receipt of final call money on preference shares)	Dr.	20,00,000	20,00,000
Bank A/c To Equity Share Application A/c (For receipt of application money on 50,000 equity shares @ Rs. 20 per share)	Dr.	20,00,000	20,00,000
Equity Share Application A/c To Equity Share Capital A/c (For capitalisation of application money received)	Dr.	20,00,000	20,00,000
Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium A/c (For allotment money due on 50,000 equity shares @ Rs. 35 per share including a premium of Rs.10 per share)	Dr.	35,00,000	25,00,000 10,00,000
Bank A/c To Equity Share Allotment A/c (For receipt of allotment money on equity shares)	Dr.	35,00,000	35,00,000

10% Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (For amount payable to preference shareholders on redemption at 5% premium)	Dr. Dr.	1,00,00,000 5,00,000	1,05,00,000
General Reserve A/c To Premium on Redemption A/c (For writing off premium on redemption of preference shares)	Dr.	5,00,000	5,00,000
General Reserve A/c 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., (1,00,00,000 - 20,00,000 - 25,00,000))	Dr.	55,00,000	55,00,000
Preference Shareholders A/c To Bank A/c (For amount paid to preference shareholders)	Dr.	1,05,00,000	1,05,00,000

Balance Sheet (extracts)

	Particulars	Notes No.	As at 31.3.2018	As at 31.12.2017
	EQUITY AND LIABILITIES		Rs.	Rs.
1.	Shareholders' funds			
	a) Share capital	1	2,45,00,000	2,80,00,000
	b) Reserves and Surplus	2	1,37,00,000	1,32,00,000

Notes to accounts

		As at 31.3.20X2	As at 31.12.20X1
1.	Share Capital		
	Issued, Subscribed and Paid up:		
	2,00,000 Equity shares of Rs.100 each fully paid up	2,00,00,000	2,00,00,000
	1,00,000 Equity shares of Rs.100 each Rs.45 paid up	45,00,000	-
	1,00,000, 10% Preference shares of Rs.100 each, Rs.80 Paid up	-	80,00,000
		2,45,00,000	2,80,00,000
2.	Reserves and Surplus		
	Capital Redemption Reserve(45,00,000+55,00,000)	1,00,00,000	45,00,000
	Securities Premium(12,00,000+ 10,00,000)	22,00,000	12,00,000
	General Reserve (75,00,000-55,00,000-5,00,000)	15,00,000	75,00,000
		1,37,00,000	1,32,00,000

Note: 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 Rs.45,00,000 (Rs.20,00,000 application money plus Rs.25,00,000 received on allotment towards share capital).

Copyrights Reserved To **MASTER MINDS COMMERCE INSTITUTE PVT.LTD.**

SOLUTIONS FOR ADDITIONAL PROBLEMS FOR SELF PRACTICE

PROBLEM NO.1

Step 1: Checking whether total securities premium sufficient to cover fully the premium payable on redemption?

Particular	Amount
A. Minimum Issue (Nominal value of Red .per. Shares-Divisible Profits available) (Rs.65,000-Rs.45,000)	19,500
B. Premium (If any) receivable on minimum Issue	30% of Rs.19,500=Rs.5,850
C. Existing Securities Premium	Rs.1,000
D. Total Securities Premium (Existing Securities Premium +Premium on Minimum Issue)	Rs.6,850
E. Premium payable on Redemption	Rs.6,500
F. Is Total Securities Premium Sufficient to cover fully the premium payable on Redemption?	Yes

Step 2: No of New Shares to be issued

= Nominal value of fresh issue of new shares /Nominal value of a New Shares

= (Nominal value of Red. Pref. Shares -Divisible Profits available for Redemption /Nominal Values Of a New Shares

= (Rs.64,000-Rs.45,500)/Rs.10=1,950

PROBLEM NO.2

Step 1: Checking whether total securities premium sufficient to cover fully the premium payable on redemption?

Particular	Amount
A. Minimum Issue (Nominal value of Red .per. Shares-Divisible Profits available) (Rs.65,000-Rs.45,000)	19,500
B. Premium (If any) receivable on minimum Issue	Nil
C. Existing Securities Premium	Rs.1,000
D. Total Securities Premium (Existing Securities Premium +Premium on Minimum Issue)	Rs.1,000
E. Premium payable on Redemption	Rs.6,500
F. Is Total Securities Premium Sufficient to cover fully the premium payable on Redemption?	NO

Step 2: No of Shares to be Issued = Sales Proceeds of fresh issue of New Shares / Issue Price
=Rs.25,000 /10=2500

Sale Proceeds of fresh issue of new shares = Nominal Value if Red. Pref. Shares +Premium on redemption –Existing Securities Premium –Divisible Profits available for Redemption

X= 65,000+6,500-1,000-45,500= Rs.25,000

Step 3: Divisible Profits to be utilized & to be transfer to CRR

= Nominal Value of Pref. Shares to be Redeemed – Proceeds of a Fresh Issue of shares
=Rs.65,000-Rs.25,000 = Rs.40,000

THE END

Copyrights Reserved To **MASTER MINDS COMMERCE INSTITUTE PVT.LTD.**