

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 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.....)	Dr. 5,00,000	5,00,000
	8% Redeemable Preference Share Capital A/c To Preference Shareholders A/c (Being the amount payable on redemption of preference shares transferred to Preference Shareholders Account)	Dr. 5,00,000	5,00,000
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of preference shares)	Dr. 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 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.....)	Dr. 90,000	90,000
	10% Redeemable Preference Shares Capital A/c To Preference Shareholders A/c (Being the amount payable on redemption of preference shares transferred to Preference Shareholders A/c)	Dr. 90,000	90,000
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of preference shares)	Dr. 90,000	90,000

PROBLEM NO. 3

Journal Entries in the books of ABC Limited

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

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)			

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

PROBLEM NO.4

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. 5

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.

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SOLUTION FOR ADDITIONAL PROBLEM 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

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