2

Chapter

Redemption of Preference Shares

ACCOUNTING FOR SHARES

Floatation of a Company

This mainly involves preparation of necessary documents like Memorandum of Association, Articles of Association and filing them with the Registrar of companies along with requisite fee. Then the company will be issued a certificate of incorporation which brings the company into existence as a legal person. The company's life commences from the date mentioned in the certificate of incorporation. A private company can commence business right from the date of its incorporation. But in case of a public company, it has to wait for a certificate of commencement of business also. That certificate will be issued if the following conditions are satisfied.

- Shares which have to be paid for in cash must have been allotted upto the amount of the minimum subscription.
- Directors must have paid in cash the application and allotment money in respect of the shares contracted to be taken by them for cash.
- No money is liable to become refundable to the applicants by reason of failure to apply for or to obtain permission for shares or debentures to be dealt in on any recognised stock exchange.

This certificate is a conclusive evidence of formation of a company.

Shares

Total capital of a company is divided into units of small denomination which are called as shares. If the share capital of a company is 5,00,000, then it can be divided into 50,000 shares of ₹ 10 each, if issued at face value. The Companies Act provides that the shares or other interest of any member in a company shall be movable property, transferable in the manner provided by the Articles of the company and that each share in a company shall be distinguished by its appropriate number.

Classes of Shares

The Companies Act provides for two classes of shares: equity and preference shares. Preference shareholders enjoy preferential treatment with regard to payment of dividend and return of capital at the time of winding up of the company.

Equity shareholders enjoy voting rights. But there is no obligation to the company to pay dividends at a fixed rate every year. Even at the time of winding up of a company, they receive their capital only after payment to preference shareholders.

Share Capital

The Capital raised by the company by the issue of shares is known as share capital.

(a) **Authorised or Nominal Share Capital:** Authorised or Nominal share capital is the share capital which the company is authorised to issue by its memorandum of association. It is the maximum amount up to which a company is authorised to issue shares to the public without altering the memorandum of association.

(b) **Issued Capital:** The nominal value of the shares which are offered to the public for subscription is called issued capital.

(c) **Subscribed Capital:** The nominal value of the shares taken up by the public is subscribed capital. Subscribed capital will be equal to issued capital when all the shares offered to the public are taken up by the public.

(d) **Called up Capital:** Called up capital is that part of the subscribed capital which has been called up. The called up capital will be equal to the subscribed capital when the board of directors have called up the total amount payable in the shares.

(e) **Paid-up Capital:** The part of the called up share capital which has been paid up by the shareholders is called paid-up capital.

Issue of Shares

The Companies Act stipulates that when shares are issued to public for cash, the company has to come out with prospectus. Prospectus is defined by Section 2(36) as "A prospectus means any document described or issued as prospectus and includes any notice, circular, advertisement or other document inviting deposits from public or inviting offers from the public for the subscription or purchase of any shares or debentures of a corporate body."

Prospectus contains the details such as the number and class of shares offered and the manner in which the amount of shares is payable by the public.

Public apply for shares of a company in an application form in a prescribed format. When an application is accepted, it is an allotment.

The application should be filed with the company or its bankers and should be accompanied by the application money. The application money is fixed by the company and should not be less than 5% of nominal value of the shares.

If the company asks the subscriber to pay a minimum amount along with the application and the rest in 2 or more instalments, then 1st instalment is called 'Application money' and 2nd instalment – share allotment money; 3rd instalment – share first call and 4th instalment – share second call.

Accounting treatment for these transactions is as follows:

On receipt of application money (which must be deposited in a scheduled bank)

- Bank Account Dr.

  To Share Application Account

  (Being share application money received and deposited in a bank)

REDEMPTION OF PREFERENCE SHARES

As per the Companies Act, 1956 as amended in 1988, only preference shares which are redeemable within 20 years can be issued. The preference shares may be redeemed at par or at premium. Redemption may be done from the proceeds of fresh issue of shares or undistributed profits. The premium on redemption of preference shares may be adjusted against the Share Premium A/c or the Profit and Loss A/c.

Section 80 of the Companies Act allows a company, if authorised by the articles of association, to issue preference shares which can be redeemed by the company according to terms of the issue subject to the following legal restrictions:

(i) Shares cannot be redeemed unless they are fully paid up.

(ii) Shares can be redeemed only out of the profits of the company which would otherwise be available for dividend or out of the proceeds of a fresh issue of shares made for the purpose of redemption.

(iii) To the extent that the shares are redeemed out of profits, capital redemption account must be credited, debiting the profit and loss account, general reserve or other accounts showing profits otherwise available for distribution of dividends.

(iv) Before the shares are redeemed, the premium, if any, payable on redemption must be provided for out of the profits of the company or out of the share premium account.

Accounting Entries – On Redemption

1. Preference Share Capital A/c Dr.
   To Preference Shareholders A/c
   (Being amount payable on redemption of preference shares transferred to Shareholders A/c)
2. Preference Shareholders A/c Dr.
   To Bank A/c
   (Being the amount due on redemption paid)

For Premium on Redemption

1. Redeemable Preference Share Capital A/c Dr.
   Premium on Redemption of Preference Shares A/c Dr.
   To Preference Shareholders A/c
   (Being the amount payable on redemption transferred to Shareholders A/c)
2. Preference Shareholders A/c Dr.
   To Bank A/c
   (Being the payment made to Preference Shareholders)
3. Profit and Loss A/c Dr.
   or
   Share Premium A/c Dr.
   To Premium on Redemption of Preference Shares A/c
   (Being the premium on redemption adjusted against Profit and Loss A/c and Share Premium A/c)

Capital Redemption Reserve

Where the preference shares are redeemed without there being a corresponding issue of shares and the redemption is made out of distributable profits, the 'gap' created in the capital needs to be filled up. For this purpose, an amount equal to the face value of the shares redeemed is transferred to Capital Redemption Reserve from the undistributed profits such as the credit balances in Profit and Loss account, General Reserve, Dividend Equalisation reserve.

The accounting entries for this are as follows:

General Reserve A/c Dr.
(or) P & L A/c Dr.
To Capital Redemption Reserve
(Being the amount transferred to Capital Redemption Reserve A/c)

The reasons behind the creation of the Capital Redemption Reserve are:

(a) To keep the capital intact, when the shares are redeemed out of the undistributed profits of the company.

(b) To protect the interest of the creditors of the company, as the directors may distribute divisible profits by way of dividend

ISSUE OF BONUS SHARES

Bonus shares are allotted to the existing shareholders without any consideration being received from them, if authorised by the articles of association. They are issued to capitalise the profits of the company. Bonus shares can be issued only out of free reserves built out of the genuine profits or share premium collected in cash.

As per Chapter XV of Guidelines for Bonus Issues given by SEBI, a listed company proposing to issue bonus shares shall comply with the following:

(a) No company shall, pending conversion of FCDs/PCDs, issue any shares by way of bonus unless similar benefit is extended to the holders of such FCDs/PCDs, through reservation of shares in proportion to such convertible part of FCDs or PCDs.

(b) The shares so reserved may be issued at the time of conversion(s) of such debentures on the same terms on which the bonus issues were made.

The bonus issue shall be made out of free reserves built out of the genuine profits or share premium collected in cash only.

Reserves created by revaluation of fixed assets are not capitalised.

The declaration of bonus issue, in lieu of dividend, is not made.

The bonus issue is not made unless the partly paid shares, if any existing, are made fully paid up.

The Company:

(a) Has not defaulted in payment of interest or principal in respect of fixed deposits and interest on existing debentures or principal on redemption thereof and

(b) Has sufficient reason to believe that it has not defaulted in respect of the payment of statutory dues of the employees such as contribution to provident fund, gratuity, bonus etc.

A company which announces its bonus issue after the approval of the Board of Directors must implement the proposal within a period of six months from the date of such approval and shall not have the option of changing the decision.

The Articles of Association of the company shall contain a provision for capitalisation of reserves, etc. If there is no such provision in the Articles, the company shall pass a Resolution at its general body meeting making provisions in the Articles of Associations for capitalisation.

Consequent to the issue of Bonus shares if the subscribed and paid-up capital exceed the authorised share capital, a Resolution shall be passed by the company at its general body meeting for increasing the authorised capital.

A Certificate duly signed by the issuer company and countersigned by statutory auditor or by Company Secretary in practice to the effect that all the above provisions have been complied with shall be forwarded to the Board.

Illustration 1: Phoolandevi Ltd. has issued 50,000 12% redeemable preference shares of ₹ 10 each, ₹ 8 paid. In order to redeem these shares now being redeemable, the company issued for cash 30,000 equity shares of ₹ 10 each at a premium of ₹ 2/- per share. Out of the proceeds, preference shares were redeemed, balance being met out of the General Reserve which stood at ₹ 2,50,000. The company then declared the bonus issue of 20,000 ordinary shares to the existing ordinary shareholders out of reserve created for redemption purpose.

Pass the necessary journal entries giving effect to the above transactions. **(T.Y. BAF, Modified)**

Solution: **Journal Entries**

	Particulars			Debit	Credit
1	For final call made on partly paid preference shares:				
	Cash/Bank A/c (50,000 × 2)	Dr.		1,00,000	
	To 12% Preference Share Capital A/c				1,00,000
2	For fresh issue of shares:			3,60,000	
	Cash/Bank A/c	Dr.			
	To Share Capital A/c (30,000 × 10)				3,00,000
	To Share Premium A/c (30,000 × 2)				3,00,000
3	For redemption of preference shares:				
	(a) For premium payable			No entry	
	(b) For transfer of preference share capital to holders:				
	12% Preference Share Capital A/c	Dr.		5,00,000	
	To Preference Shareholders A/c				5,00,000
	(c) For payment:				
	Preference Shareholders A/c	Dr.		5,00,000	
	To Cash/Bank A/c				5,00,000
	(d) For CRR:				
	Normal Value of Preference Shares Redeemed = Fresh Issue + CRR				
	∴ 5,00,000 = 3,00,000 + CRR				
	∴ CRR = 2,00,000				
	General Reserve A/c	Dr.		2,00,000	
	To CRR A/c				2,00,000
4	For issue of bonus shares:				
	(a) For appropriation of bonus shares:				
	CRR A/c	Dr.		2,00,000	
	To Bonus to Shareholders A/c (20,000 × 10)				2,00,000
	(b) For actual issue:				
	Bonus to Shareholders A/c	Dr.		2,00,000	
	To Equity Share Capital A/c				2,00,000

Illustration 2: Young Turks Ltd. decided to redeem their preference shares as on March, 2015 on which date their position was as under:

Balance Sheet as at 31.3.2015

Liabilities		₹	Assets	₹
Share Capital:			Cash and Bank Balances	1,40,000
4,000 Equity Shares of ₹ 100 each		4,00,000	Others	8,60,000
4,000 6% Redeemable Preference Shares of ₹ 50 each, ₹ 25 per share paid		1,00,000		
2,000 7% Redeemable Preference Shares of ₹ 100 each fully paid		2,00,000		
Reserves and Surplus:				
Securities Premium A/c	10,000			
Capital Redemption Reserve A/c	90,000			
Dividend Equalisation Reserve	1,10,000	2,10,000		
Sundry Liabilities		90,000		
		10,00,000		**10,00,000**

The redemption is to be made at a premium of 5%. The capital redemption reserve appearing in the balance sheet is the reserve brought into being as a result of a redemption which took place in 2004. To enable the redemption to be carried out, the company decides to issue sufficient number of new equity shares at a discount of 10%. The redemption is duly carried out. Show journal entries relating to the redemption and new issue and also the balance sheet after redemption. Ignore the question of dividend upto the redemption. **(T.Y.B.Com., Modified, M.U.)**

Solution: **Young Trucks Ltd.**

5% of 2,00,000 = 10,000 Premium payable on Redemption
Free Share Premium

Nominal value = Fresh issue + CRR

2,00,000 = Fresh issue + 1,10,000 (Dividend Equalisation Reserve)

∴ Fresh issue = 90,000

₹ 1,00,000 Fresh equity issued at 10% discount

	Issue Price	Proceeds fo Fresh Issue means
At Par	100	100
At Premium	110	100
At Discount	90	90

Journal Entries

	Particulars			Debit	Credit
1	For fresh issue:				
	Cash/Bank A/c	Dr.		90,000	
	Discount on Issue of Shares A/c	Dr.		10,000	
	To Equity Share Capital A/c				1,00,000
2	For premium:				
	Share Premium A/c	Dr.		10,000	
	To Premium on Redemption of Preference Shares A/c				10,000
3	For transfer:				
	7% Preference Share Expenses A/c	Dr.		2,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.		10,000	
	To Preference Shareholders A/c				2,10,000

4	For payment: Preference Shareholders A/c Dr. To Cash/Bank A/c		2,10,000	 2,10,000
5	For CRR: Dividend Equalisation Reserve A/c Dr. To CRR A/c		1,10,000	 1,10,000

Balance Sheet as on 31/03/15

	Particulars	₹	₹
[I]	**Equity and Liabilities**		
	1. Share Capital	6,00,000	
	2. Reserves and Surplus	2,00,000	8,00,000
	3. Share Application Allotment Money Pending	–	
	4. Non-current Liability	–	
	5. Current Liability:		
	Sundry Liability	90,000	90,000
	Total		**8,90,000**
[II]	**Assets**		
	1. Non-current Assets		
	(a) Fixed Assets:		
	Tangible		–
	Intangible		–
	(b) Non-current Investment		–
	(c) Other Non-current Assets:		
	Discount on Issue of Shares	10,000	10,000
	2. Current Assets:		
	Inventory		
	Trade Receivable		–
	Cash and Cash Equivalent [1,40,000 + 90,000 – 2,10,000]		20,000
	Other Current Assets	8,60,000	8,60,000
	Total		**8,90,000**

Illustration 3: The Balance Sheet of Redemption Limited as at 31st March, 2015 was as under:

Liabilities		₹	Assets	₹
10,000 Equity shares of ₹ 10			Fixed Assets	2,62,000
each fully paid up		1,00,000	Sundry Debtors	90,000
11% Redeemable Preference			Stock	30,000
Shares of ₹ 100 fully called up	1,00,000	1,00,000	Investments	30,000
Less: Calls-in-arrears			Bank Balance	4,000
at the rate of ₹ 20 per share	6,000	94,000		
10% preference shares of ₹ 10				
each fully paid up (Irredeemable)		1,00,000		
General Reserve		40,000		
Profit and Loss Account		20,000		
Share Premium		5,000		
Capital Reserve		30,000		
Sundry Creditors		27,000		
		4,16,000		**4,16,000**

Redeemable preference shares were due for payment on 1st April, 2015 at a premium of 10%.

Company sent reminders for the final call on remaining 300 redeemable preference shares and could collect money from shareholders holding 200 shares at the rate of ₹ 20 per share and forfeited the defaulting 100 shares.

Company sold all investments and could recover 90% of the cost of such investments.

Company issued adequate number of new equity shares at par, to the extent, available profits were insufficient to back up the redemption.

One shareholder holding 10 redeemable preference shares could not be traced and payment due to him on redemption could not be made to him.

Draft journal entries. Show your assumptions and prepare the balance sheet of the company after redemption. **(T.Y.BAF/B.Com., Modified M.U.)**

Solution: Working Notes

(1)	Total 11% Preference Shares	1,000
	(–) Forfeited	100
	Fully paid up/To be redeemed	900

(2)	900 × 100 =	90,000	Preference Share Capital
	10% Premium =	9,000	
		99,000	Total Payable

(3)	Total Payable	99,000	
	(–) Not paid (10 × 110)	1,100	
		97,900	
	General Reserve	40,000	
	P & L A/c	20,000	
		60,000	
	(–) Premium on Redn.	4,000	(9,000 – 5000)
	(–) Loss on Sale of Invest.	3,000	
	Available for CRR	53,000	

(4) N. Value = Fresh issue + CRR
90,000 = Fresh Issue + 53,000
∴ Fresh Issue = 37,000

Journal Entries in the Books of Redemption Ltd.

	Particulars			Debit	Credit
1	For final call money received on 200 preference shares:				
	Cash/Bank A/c (200 × 10)	Dr.		4,000	
	To Calls-in-arrears A/c				4,000
2	For forfeiture of 100 shares:				
	11% Preference Share Capital A/c (100 × 10)	Dr.		10,000	
	To Shares Forfeiture A/c (100 × 80)				8,000
	To CRR A/c (100 × 20)				2,000
3	For fresh issue:				
	Cash/Bank A/c	Dr.		37,000	
	To Equity Share Capital A/c				37,000
4	For sale of investments:				
	Cash/Bank A/c	Dr.		27,000	
	Profit and Loss A/c (Loss on Sale)	Dr.		3,000	
	To Investments				30,000
5	For premium:				
	Share Premium A/c	Dr.		5,000	
	General Reserve A/c	Dr.		4,000	
	To Premium on Redemption A/c				9,000

6	For transfer: 11% Preference Share Capital A/c Dr. Premium on Redemption of Preference Share A/c Dr. To Preference Shareholders A/c		90,000 9,000	 99,000
7	For payment: Preference Shareholders A/c Dr. To Cash/Bank A/c		97,900	 97,900
8	For CRR: General Reserve A/c (40,000 – 4,000) Dr. Profit and Loss A/c (20,000 – 3,000) Dr. To CRR A/c		36,000 27,000	 53,000
9	Share Forfeiture A/c Dr. To Capital Reserve A/c		8,000	 8,000

Balance Sheet as on 31/3/2015

	Particulars	**₹**	**₹**
[I]	**Equity and Liabilities**		
	1. Shareholder's Fund:		
	Equity Share Capital	1,37,000	
	Preference Share Capital	1,00,000	2,37,000
	2. Reserve and Surplus:		
	Capital Reserve	38,000	
	CRR	53,000	91,000
	3. Share Application Allotment Money Pending		–
	4. Non-current Liability		–
	5. Current Liability:		
	Amount due to preference shareholders	1,100	
	Bank overdraft	25,900	
	Creditors	27,000	54,000
	Total		**3,82,000**
[II]	**Assets**		
	1. Non-current Assets:		
	Fixed Assets		2,62,000
	2. Non-current Investment		
	3. Other Non-current Assets		
	4. Current Assets:		
	(a) Inventory	30,000	–
	(b) Trade Receivable:		–
	Sundry Debtors	90,000	1,20,000
	(c) Cash and Cash Equivalent		–
	(d) Other Current Assets		–
	Total		**3,82,000**

Illustration 4: The Bharat Aluminium Co. Ltd. whose issued share capital on 31st December, 2015 consisted of 12,000, 8% Redeemable preference shares of ₹ 100 each fully paid and 40,000 Equity shares of ₹ 100 each ₹ 80 paid up, decided to redeem Preference shares at a premium of ₹ 10 per share. The company's balance sheet as on 31st December, 2015 showed a general reserve of ₹ 18,00,000 and a capital reserve of ₹ 17,00,000. The redemption was effected partly out of profits and partly out of the proceeds of a new issue of 6,000 7½% cumulative preference shares of ₹ 100 each at

a premium of 25 per share. The premium payable on redemption was met out of the premium received on the new issue.

On 1st April, 2015, the company at its general meeting resolved that all the capital reserves be applied in the following manner: (i) the declaration of bonus at the rate of ₹ 20 per share on equity shares for the purpose of making the said equity shares fully paid; and (ii) the issue of bonus shares to the equity shareholders in the ratio of one share for every four shares held by them. **(CA Modified)**

Solution: Bharat Aluminium Ltd.

(1)	Fresh Issue		
	6,000 × 100 =	6,00,000	Face Value
	6,000 × 25 =	1,50,000	Share Premium
		7,50,000	Total Cash Reserve

(3)	For CRR
	NV = FI + CRR
	12,00,000 = 6,00,000 + CRR
	∴ CRR = 6,00,000

(2)	Premium on Redemption	1,20,000
	12,000 shares × 10/-	Share Premium

Journal Entries

	Particulars		Debit	Credit
1	For fresh issue:			
	Cash/Bank A/c	Dr.	7,50,000	
	To Share Capital A/c (75% Preference Shares)			6,00,000
	To Share Premium A/c			1,50,000
2	For premium:			
	Share Premium A/c	Dr.	1,20,000	
	To Premium on Redemption A/c			1,20,000
3	For transfer:			
	8% Preference Share Capital A/c	Dr.	12,00,000	
	Premium on Redemption of Preference Capital A/c	Dr.	1,20,000	
	To Preference Shareholders A/c			13,20,000
4	For payment:			
	Preference Shareholders A/c	Dr.	13,20,000	
	To Cash/Bank A/c			13,20,000
5	For CRR:			
	General Reserve A/c	Dr.	6,00,000	
	To CRR A/c			6,00,000
6	For appropriation of bonus:			
	(a) To convert partly paid equity shares into fully paid:			
	(i) For final call made:			
	Equity Share Final Call A/c	Dr.	8,00,000	
	To Equity Share Capital A/c			8,00,000
	(ii) For appropriation of bonus amount:			
	General Reserve A/c	Dr.	8,00,000	
	To Bonus to Shareholders A/c			8,00,000
	(iii) For distribution of bonus amount in payment of final call:			
	Bonus to Shareholders A/c	Dr.	8,00,000	
	To Equity Share Final Call A/c			8,00,000

7	(a) For issue of fully paid bonus shares:			
	CRR A/c	Dr.	6,00,000	
	Share Premium A/c (15,000 – 12,000)	Dr.	30,000	
	Capital Reserve A/c	Dr.	3,70,000	
	To Bonus to Shareholders A/c			10,00,000
	(b) For actual issue:			
	Bonus to Shareholders A/c	Dr.	10,00,000	
	To Equity Share Capital A/c			10,00,000

Illustration 5: The summarised Balance Sheet of Ivory Towers Ltd. as on 31st March, 2015 was as follows:

Liabilities	₹	Assets	₹
Issued Share Capital:		Goodwill	7,000
40,000 6% Redeemable Preference Shares of		Preliminary Expenses	2,850
₹ 1/- each fully paid (Redeemable on		Sundry Assets	1,58,000
April 29, 2015 at a premium of 5%)	40,000	Balance at Bank	27,250
60,000 Ordinary shares of ₹ 1 each fully paid	60,000		
Securities Premium	20,000		
Profit and Loss A/c	23,000		
Creditors	52,100		
	1,95,100		**1,95,100**

As a part of the arrangement to effect the redemption of preference shares on April 29, it was decided to provide for that part of preference shares which could not otherwise be redeemed by issuing new preference shares. Before doing so it had, however, been decided to write off the goodwill, preliminary expenses and discount on debentures (referred to below) in such a way that the number of new shares to be issued should be the minimum possible.

The transactions during April were:

(a) On April 4, the company issued for cash ₹ 12,000 7% debentures, at a discount of 2½%.

(b) On April 6, goodwill, preliminary expenses and discount on debentures were written off.

(c) On April 12, the company issued at par, for cash (paid in full on allotment), the minimum number of new 8% preference shares of ₹ 1 each necessary to provide for the redemption of those preference shares which could otherwise be not redeemed.

(d) On April 29, the company redeemed the 6% preference shares together with one month's dividend thereon.

(e) On April 30, the company made a bonus issue to the ordinary shareholders of the fully paid share of ₹ 1 for every five shares held.

You are required to set out, for the information of directors, a proforma summarised Balance Sheet of the company as it would appear immediately after completion of the above transactions. In the meantime, you are to append explanatory schedule in regard to each item in which an alteration occurs. **(CA/CS Modified)**

Solution: **Journal of Ivory Towers Ltd.**

	Particulars		Debit	Credit
1	For issue of debenture at discount:			
	Cash/Bank A/c (12,000 – 300)	Dr.	11,700	
	Discount on Debenture A/c	Dr.	300	
	To 7% Debentures			12,000

2	(a) Profit and Loss A/c	Dr.		7,000	
	To Goodwill A/c	Dr.			7,000
	(b) To write off preliminary expenses and discount on debentures:				
	Share Premium A/c	Dr.		3,150	
	To Preliminary Expenses				2,850
	To Discount on Debentures				300
3	NV of preference shares redeemed = Fresh issue + CRR				
	40,000 = Fresh Issue + 15,800 (P & L) (23,000 – 7,000 – 200) Dividend				
	∴ Fresh issue = 24,200 (Goodwill)				
	Cash/Bank A/c	Dr.		24,200	
	To 8% New Preference Share Capital A/c				24,200
4	(a) For premium:				
	Share Premium A/c	Dr.		2,000	
	To Premium on Redemption A/c				2,000
	(b) For transfer:				
	6% Preference Capital A/c Share Premium A/c	Dr.		40,000	
	Premium on Redemption A/c	Dr.		2,000	
	To Preference Shareholders A/c				42,000
	(c) For payment:				
	Preference Shareholders A/c	Dr.		42,000	
	To Cash/Bank A/c				42,000
	(d) For CRR:				
	Profit and Loss A/c	Dr.		15,800	
	To CRR A/c				15,800
	(e) For one month dividend to preference shareholders:				
	Profit and Loss A/c	Dr.		200	
	To Cash/Bank A/c				200
5	(a) For appropriation of bonus amount:				
	CRR A/c	Dr.		12,000	
	To Bonus to Shareholders A/c				12,000
	(a) For actual issue:				
	Bonus to Shareholders A/c	Dr.		12,000	
	To Equity Share Capital A/c				12,000
	Bonus Shares 60,000				
	Old Equity Shares Nil				
	(+) New Equity Shares 60,000				
	Total No.				
	Existing : Given				
	5 : 1				
	60,000 : (?)				
	12,000 × ₹ 1 = 12,000 – CRR				

Balance Sheet as on 31/3/2015

Particulars	₹	₹
[I] Shareholders' Fund		
1. Equity Share Capital:	72,000	
8% Preference Share Capital	24,200	96,200

	2. Reserves and Surplus:		
	Securities Premium	14,850	
	CRR	3,800	
	Profit and Loss A/c	–	18,650
	3. Share Application Allotment Money Pending		–
	4. Non-current Liabilities:		
	7% Debentures		12,000
	5. Current Liabilities:		
	Creditors		52,100
	Total		**1,78,950**
II.	**Assets**		
	1. Non-current Assets:		
	(a) Fixed Assets:		
	Sundry Assets		1,58,000
	(b) Non-current Investment		–
	(c) Other Non-current Assets		–
	2. Current Assets:		
	(a) Inventory		–
	(b) Trade Receivable		–
	(c) Cash and Cash Equivalent		20,950
	(d) Other Current Assets		–
	Total		**1,78,950**

Illustration 6: Footfault Ltd. had equity capital of ₹ 2,00,000 divided into shares of ₹ 100 each, 11% cumulative redeemable preference shares of ₹ 100 each for ₹ 1,00,000 and ₹ 50,000 and ₹ 40,000 respectively to the credit of Profit and Loss Account and General Reserves as on 31st March, 2014. It had also ₹ 8,000 to the credit of Share Premium Account.

As per the agreement with the preference shareholders, the Directors decided to redeem the shares on 1.4.2015 at a premium of 10%. It was also decided to sell certain investments whose book and market values on 31.3.2015 were ₹ 40,000 and ₹ 50,000 respectively to enable redemption.

For purposes of redemption, the Board decided to utilise free reserve to the minimum extent possible. It was decided to issue right equity shares at a premium of 20% to finance (provide funds for) the redemption.

After redemption, the Board decided to issue bonus shares to equity holders in the ratio of 2 for 5.

Holders of 10 preference shares were not traceable.

Show the necessary Journal entries to record the above transactions in the books of Footfault Ltd. and also how the items will appear in the Balance Sheet of the company.

(T.Y. B.Com., Modified, M.U.)

Solution:

	Particulars			Debit	Credit
1	For fresh issue of equity shares:				
	Cash/Bank A/c	Dr.		60,000	
	To Equity Share Capital A/c				50,000
	To Share Premium A/c				10,000
2	For sale of investments:				
	Cash/Bank A/c	Dr.		50,000	
	To Investments A/c				40,000
	To Profit and Loss A/c				10,000

3	For premium on redemption: Share Premium A/c Dr. To Premium on Redemption of Preference Shares A/c		 10,000 	 10,000
4	For transfer amount payable to preference shareholders: 11% Cumulative Redeemable Preference Share Capital A/c Dr. Premium on Redemption A/c To Preference Shareholders A/c		 1,00,000 10,000 	 1,10,000
5	For payment to preference shareholders: Preference Shareholders A/c Dr. To Cash/Bank A/c		 99,000 	 99,000
6	For transfer to CRR: Dr. Profit and Loss A/c/General Reserve A/c To Capital Redemption Reserve A/c		 50,000 	 50,000
7	For issue of bonus shares: Dr. (a) Capital Redemption Reserve A/c Share Premium A/c (8,000 + 10,000 – 10,000) General Reserve A/c Profit and Loss A/c To Bonus to Equity Shareholders A/c		 50,000 8,000 40,000 2,000 	 1,00,000
	(b) Bonus to Equity Shareholders A/c Dr. To Equity Share Capital A/c		1,00,000 	 1,00,000

(1) NV of Preference Share to be redeemed = Fresh Issue + CRR
1,00,000 = 50,000 + CRR
∴ CRR = 50,000

(2)

Total Payable			1,10,000
(–) Unpaid 100 × 100 =	10,000		
Premium	1,000		11,000
Paid			99,000

(3) Bonus issue

	Held		Bonus
	5	:	2
	25,000	:	?

= 10,000 Bonus shares
= 10,000 ×10
Value 10,000 × 10 = 1,00,000

(4) Fresh Issue:

Amount Required Redemption (1,00,000 + 10,000)	1,00,000
(–) Sale of Investments	50,000
Shortfall – Fresh issue (120)	60,000

N.V. (100) 50,000 | Premium (20)

Illustration 7: The following is the Balance Sheet of Alpha Plus Ltd. as at 31st March, 2015.

Liabilities	₹	Assets	₹
10,000 Equity Shares of ₹ 100 each fully paid	10,00,000	Fixed Assets	20,00,000

5,000 Redeemable Preference Shares of		Investments (Market value ₹ 2,20,000)	2,00,000
₹ 100 each fully paid	5,00,000	Current Assets:	
Sinking Fund	1,00,000	Stock	3,50,000
Securities Premium	80,000	Debtors	3,50,000
General Reserve	2,00,000	Bank Balance	1,00,000
Profit and Loss Account	80,000		
Current Liabilities	10,40,000		
	30,00,000		**30,00,000**

Redeemable Preference Shares are to be redeemed at a premium of 10%. Fresh issue of Equity shares to be made to the extent required in terms of provisions of Companies Act, 1956. All investments to be sold at the market value. Temporary bank overdraft was to be arranged in case of shortage of funds.

Company redeemed the preference shares on 1st April, 2015, except in case of one shareholder holding 100 preference shares, who could not be traced. Subsequently, company issued bonus shares in the ratio of one Equity Share for every four Equity Shares held.

Pass journal entries to record the above transactions and prepare a Balance Sheet after giving effect of those entries. **(T.Y.BAF/B.Com., Modified, M.U. & P.U.)**

Solution: Working Notes

1. Premium on Redemption = Share Premium + Profit (Existing + Expected)
   (80,000 + Nil)
   = 50,000 + Nil

2. NV of Preference Shares to be redeemed = Proceeds of Fresh Issue + Profit Available for Dividend

General Reserve 2,00,000 Profit & Loss 1,00,000 (80,000 + 20,000)

   5,00,000 = 2,00,000 + 3,00,000
   ∴ 2,000 Equity Shares of ₹ 100/- = 2,00,000
   Profit Available for Dividend

   3,00,000

   2,00,000 General Reserve — 1,00,000 Profit & Loss

Journal of Alpha Plus Ltd.

	Particulars	L.F.	Debit	Credit
1	For fresh issue of shares:			
	Cash/Bank A/c Dr.		2,00,000	
	To Equity Share Capital A/c			2,00,000
2	For sale of investments:			
	Cash/Bank A/c Dr.		2,20,000	
	To Investments A/c			2,00,000
	To Profit and Loss A/c			20,000
3	For write off premium on redemption:			
	Share Premium A/c Dr.		50,000	
	To Premium on Redemption A/c			50,000

4	For transfer amount payable to Preference Shareholders A/c:			
	Preference Share Capital A/c Dr.		5,00,000	
	Premium on Redemption A/c Dr.		50,000	
	To Preference Shareholders A/c Dr.			5,50,000
5	For payment to Preference Shareholders:			
	Preference Shareholders A/c Dr.		5,39,000	
	To Cash/Bank A/c			5,39,000
6	General Reserve A/c Dr.		2,00,000	
	Profit and Loss A/c Dr.		1,00,000	
	To CRR A/c			3,00,000
7	Issue of bonus shares:			
	Bonus Existing			
	1 : 4			
	(3,000) 12,000			
	∴ 3,000 Equity Shares of ₹ 100/- = ₹ 3,00,000/-			
	(a) CRR A/c Dr.		3,00,000	
	To Bonus to Equity Shareholders A/c			3,00,000
	(b) Bonus to Equity Shareholders A/c Dr.		3,00,000	
	To Equity Share Capital A/c			3,00,000

Balance Sheet as on 1/4/2015

Particulars	₹	₹
[I] Equity and Liabilities		
1. Share Capital:		
Equity Share Capital		15,00,000
Preference Share Capital		–
2. Reserves and Surplus:		
Sinking Fund	1,00,000	
Securities Premium	30,000	1,30,000
3. Share Application Money Pending Allotment		–
4. Non-current Liabilities		–
5. Current Liabilities:	10,40,000	
Unpaid Preference Shareholder	11,000	
Bank O/D	19,000	10,70,000
Total		**27,00,000**
[II] Assets		
1. Non-current Assets:		
(a) Fixed Assets		20,00,000
Tangible		
Intangible		–
(b) Non-current Investment		–
(c) Other Non-current Assets		–
2. Current Assets:		
Inventory		3,50,000
Trade Receivable		3,50,000
Cash and Cash Equivalent		
Other Current Assets		
Total		**27,00,000**

Illustration 8: The following is the summarised Balance Sheet of Apro Engineers Ltd. as at 31st March, 2015:

Balance Sheet

Liabilities		₹	Assets	₹
Share Capital			Fixed Assets	27,00,000
Issued, subscribed and paid up		18,00,000	Investment (against Reserve)	2,00,000
Equity shares (fully paid)			Current Assets	11,00,000
9% Redeemable Preference Shares				
of ₹ 100/- fully called	1,80,000			
Less: Calls-in-arrears	2,000	1,78,000		
Revenue Reserve		13,50,000		
Current Liabilities		4,50,000		
Securities Premium		2,22,000		
		40,00,000		**40,00,000**

100 Preference Shares on which the last call of ₹ 20 was not paid, were forfeited by the Board of Directors on 30th April, 2015.

The Directors redeemed the remaining preference shares at a premium of 10% on 30th September, 2015. For this purpose, 10,000 Equity Shares of ₹10 each were issued at a premium of 10% and were fully paid up within 30th July, 2015.

Current assets before redemption of preference shares included ₹ 2,00,000 in current account with bankers. Company closes its accounts on 31st March.

Pass necessary journal entries including those relating to cash for recording the above transactions and show the resultant balance after redemption in the following accounts. (i) Securities Premium, (ii) Revenue Reserve and (iii) Bank Account.

Solution:

	Particulars			Debit	Credit
10.04.15	Forfeiture of Shares:				
	9% Preference Share Capital A/c (100 × 100)	Dr.		10,000	
	To Calls-in-arrears A/c (100 × 20)				2,000
	To Share Forfeiture A/c (100 × 80)				8,000
30.07.15	Fresh Issue of Shares:				
	Cash/Bank A/c	Dr.			
	To Equity Share Capital A/c			1,10,000	
	To Share Premium A/c				1,00,000
30.09.15	Transfer Amount Payable to Profit Shareholders A/c:				10,000
	9% Preference Share Capital A/c	Dr.		1,70,000	
	Premium on Redemption A/c	Dr.		17,000	
	To Preference Shareholders A/c				1,87,000
	Write off premium on Redemption:				
	Share Premium A/c	Dr.		17,000	
	To Premium on Redemption A/c.				17,000
	Transfer to CRR:				
	Revenue Reserve A/c	Dr.		70,000	
	To CRR A/c				70,000
	Payment to preference shareholder:				
	Preference Shareholders A/c	Dr.		1,87,000	
	To Cash/Bank A/c				1,87,000

Premium on Redemption	=	Share Premium + Profit
		(Existing + Expected)
		(2,22,000 + 10,000)
NV of Preference Shares to be redeemed	=	Proceeds of fresh investment + Profit available for dividend
1,70,000	=	1,00,000 + 70,000 (Reserve transferred to CRR)
(1,800 sh. – 100 sh.) × ₹ 100		(10,000 sh. × 10/-)

Bank A/C

Particulars	Amount	Particulars	Amount
To Opening Balance b/d	2,00,000	By Preference Shareholders	1,87,000
To Fresh Issue	1,10,000	By Balance c/f	1,23,000
	3,10,000		**3,10,000**

Revenue Reserve

Particulars	Amount	Particulars	Amount
To CRR	70,000	By Opening Balance b/d	13,50,000
To Balance c/f	12,80,000		
	13,50,000		**13,50,000**

Share Premium

Particulars	₹	Particulars	₹
To Premium on Redemption	17,000	By Balance b/d	2,22,000
To Balance c/f	2,15,000	By Cash/Bank	10,000
	2,32,000		**2,32,000**

Working Notes

1.	Premium on Redemption	=	Share Premium + Profits
			(Existing + Expected)
			(29,000 + Nil)
	1,500	=	1,500 + Nil
2.	NV of Preference Shares to be redeemed	=	Proceeds of fresh issue + Profit available for dividend
	30,000	=	Nil + 30,000 (General Reserve Transfer to CRR)

Illustration 9: The following is the Balance Sheet of H Limited as on June 30, 2015:

Liabilities	₹	Assets		₹
Share Capital:		Fixed Assets		1,00,000
3,000 6% Redeemable Preference		Investments		21,000
Shares of ₹ 10 each fully paid	30,000	Current Assets:		
Equity Share Capital	60,000	Stock in trade	44,000	
Securities Premium Account	29,000	Sundry Debtors	26,000	
General Reserve	40,000	Cash at Bank	12,000	82,000
Profit and Loss Account Balances	24,500			
Sundry Creditors	19,500			
	2,03,000			**2,03,000**

The company exercised its option to redeem, on July 1, 2015, the whole of the Preference Share Capital at a premium of 5%.

To assist in financing the redemption, all the investments were sold, realising ₹ 19,500. On September 1, 2015, the company made a bonus issue of two Equity Shares fully paid for every five Equity Shares hold on that date.

The appropriate resolutions having been passed, the above transactions were duly completed.

You are required to show the journal entries to record the transactions in the books of the company and the Balance Sheet as it would appear after the completion of the transactions.

(CMA Modified)

Solution: **Journal of 'H' Ltd.**

	Particulars			Debit	Credit
1	Sale of investments:				
	Cash/Bank A/c	Dr.		19,500	
	Profit and Loss A/c	Dr.		1,500	
	To Investment A/c				21,000
2	Transfer amount payable to Preference Shareholders A/c:				
	6% Preference Share Capital A/c	Dr.		30,000	
	Premium on Redemption A/c	Dr.		1,500	
	To Preference Shareholders A/c				31,500
3	Write off premium on redemption:				
	Share Premium A/c	Dr.		1,500	
	To Premium on Redemption A/c				1,500
4	Transfer to CRR:				
	General Reserve A/c	Dr.		30,000	
	To CRR A/c				30,000
5	Payment to Preference Shareholders A/c:				
	Preference Shareholders A/c	Dr.		31,500	
	To Cash/Bank A/c				31,500
6	Issue of Bonus Shares				
	Bonus : Existing				
	2 : 5				
	? : 6,000				
	∴ 2,400 Equity Shares of ₹ 10 fully paid = ₹ 24,000/-				
	(a) CRR A/c	Dr.		24,000	
	To Bonus to Equity Shareholder A/c				24,000
	(b) Bonus to Equity Shareholder A/c	Dr.		24,000	
	To Equity Share Capital A/c				24,000

Cash at Bank A/c

Particulars	Amount	Particulars	Amount
To Opening Balance	12,000	By Preference Shareholder	31,500
To Sale of Investment	19,500		
	31,500		**31,500**

Balance Sheet as 31/07/2015

Particulars		₹	₹
[I]	**Equity and Liabilities**		
	1. Shareholders' Fund:		
	Equity Share Capital		84,000
	2. Reserves and Surplus:		
	Securities Premium	27,500	
	General Reserve	10,000	

	CRR	6,000	
	P & L	23,000	66,500
	3. Share Application Allotment Money Pending		–
	4. Non-current Liabilities		–
	5. Current Liabilities:		
	Creditors	19,500	19,500
	Total		**1,70,000**
[II]	**Assets**		
	1. Non-current Assets:		
	(a) Fixed Assets		1,00,000
	(b) Non-current Assets		–
	(c) Other Non-current Assets		–
	2. Current Assets:		–
	(a) Inventory		44,000
	(b) Trade Receivable		26,000
	(c) Cash and Cash Equivalent		–
	(d) Other Current Assets		–
	Total		**170,000**

Illustration 10: X Ltd. has the following balance sheet as on 31st March, 2015.

Liabilities	₹	Assets		₹
Share Capital:		Fixed Assets		22,00,000
Issued subscribed and fully paid up		Current Assets:		
10,000 Ordinary shares of ₹ 100 each	10,00,000	Stock and Debtors	5,00,000	
5,000 Preference Shares of ₹ 100 each	5,00,000	Cash/Bank	3,00,000	8,00,000
Capital Reserves	1,00,000			
Securities Premium Account	1,00,000			
General Reserve	2,00,000			
Profit and Loss Account	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 utilising the proceeds of the fresh issue are to be met by taking at a bank loan. Show journal entries. **(CMA/CA Modified)**

Solution: Working Notes

1. Premium on Redemption = Share Premium + Profit
   (Existing + Expected)
   (1,00,000 + Nil)
   50,000 = 50,000 + Nil
2. NV of Preference Share to be redeemed = Proceeds of fresh issue + Profit available for dividend
   5,00,000 = 2,00,000 + 3,00,000 (General Reserve = 2,00,000 + Profit and Loss = 1,00,000)
   ∴ 2,000 Equity Shares of ₹ 100/- = 2,00,000
3. Amount resumed for redemption
   (5,00,000 + 50,000) = 5,50,000
   (–) Process of fresh issue = 2,00,000
   Amount of bank loan 3,50,000

Journal of 'X' Ltd.

	Particulars			Debit	Credit
1	Fresh issue of shares:				
	Cash/Bank A/c	Dr.		2,00,000	
	To Equity Share Capital A/c				2,00,000
2	Transfer amount payable to Preference Shareholders A/c:				
	Preference Share Capital A/c	Dr.		5,00,000	
	Premium on Redemption A/c	Dr.		50,000	
	To Preference Shareholders A/c				5,50,000
3	Write off premium on redemption:				
	Share Premium A/c	Dr.		50,000	
	To Premium on Redemption A/c				50,000
4	Transfer to CRR:				
	General Reserve A/c	Dr.		2,00,000	
	Profit and Loss A/c	Dr.		1,00,000	
	To CRR A/c				3,00,000
5	Payment to Preference Shareholder:				
	Preference Shareholders A/c	Dr.		5,50,000	
	To Cash/Bank				5,50,000
6	Bank loan taken:				
	Cash/Bank A/c	Dr.		3,50,000	
	To Bank Loan A/c				3,50,000

Working Notes:

Premium on Redemption	=	Share Premium + Profits
		(Existing + Expected)
		(Nil + Nil)
50,000	=	Nil + 50,000 (Profit and Loss A/c)
N.V. Preference Shares to be deemed	=	Proceeds of fresh value + Profit available for dividend
10,00,000	=	5,00,000 + 5,00,000 (P & L A/c transferred to CRR)

Illustration 11: The summarised balance sheet of Prudent Company Ltd. on 30th June, 2015 was as follows:

Liabilities	₹	Assets	₹
Share Capital:		Sundry Assets	49,00,000
Authorised, Issued and Paid		Cash at Bank	7,00,000
1,00,000, 9% redeemable preference shares			
of ₹ 10 each	10,00,000		
2,50,000 Equity Shares of ₹ 10 each	25,00,000		
Current Liabilities	15,00,000		
Profit and Loss A/c	6,00,000		
	56,00,000		**56,00,000**

The conditions of issue of the redeemable preference shares provided for their being redeemed on 15th July, 2015, at a premium of 5 per cent. The profits available being not sufficient to redeem the whole issue, the company issued 5,000 10% preference shares of ₹ 100 each at par on 1st July, 2015 which were duly taken up and paid for. The redeemable preference shares were redeemed on the due date.

On 1st September, 2015, the company decided to utilise the capital redemption reserve account to issue ₹ 10 equity shares as bonus shares to the old equity shareholders.

Show journal entries to record the above transactions.

Solution: **Journal of Prudent Co. Ltd.**

	Particulars			Debit	Credit
1	Fresh issue of share:				
	Cash/Bank A/c	Dr.		5,00,000	
	To 10% Preference Share Capital				5,00,000
2	Transfer amount payable to Preference Shareholder A/c:				
	9% Preference Share Capital A/c	Dr.		10,00,000	
	Premium on Redemption A/c	Dr.		50,000	
	To Preference Shareholder A/c				10,50,000
3	Write off premium of redemption:				
	Profit and Loss A/c	Dr.		50,000	
	To Premium on Redemption A/c				50,000
4	Transfer to CRR:				
	Profit and Loss A/c	Dr.		5,00,000	
	To CRR A/c				5,00,000
5	Payment of preference shareholder:				
	Preference Shareholders A/c	Dr.		10,50,000	
	To Cash/Bank A/c				10,50,000
6	CRR A/c	Dr.		5,00,000	
	To Bonus to Equity Shareholders A/c				5,00,000
7	Bonus to Equity Shareholders A/c	Dr.		5,00,000	
	To Equity Share Capital				5,00,000
	(50,000 Equity Shares of ₹ 10 issued as Bonus Shares)				

Illustration 12: Traders Ltd. has an authorised capital of ₹ 2,50,000 comprising 50,000 6% Redeemable Cumulative Preference Shares of ₹ 1/- each and 2,00,000 Ordinary shares of ₹ 1/- each. The preference shares are redeemable on 1st July, 2014 at ₹ 1.05 per share. The summarised balance sheet of the company as on 31st December, 2014 was:

Liabilities		₹	Assets		₹
Share Capital issued and fully paid up:			Sundry Assets	1,96,700	
Preference	50,000		Investments	14,000	
Ordinary	1,00,000	1,50,000	Balance at Bank	28,000	2,38,700
Capital Reserve		9,500	*Less:* Creditors		16,700
General Reserve		20,000			
Profit and Loss A/c		42,500			
		2,22,000			**2,22,000**

The necessary resolutions were duly passed and the following transactions carried through on the dates stated:

(a) On 31st May, 2015 in order to provide cash towards the redemption of the preference shares:

(i) all the investments were sold for ₹ 18,000 and

(ii) 20,000 ordinary shares of ₹ 1 each were issued to existing shareholders at ₹ 1.25 per share payable in full forthwith and duly paid.

(b) On 1st July, 2015, the preference shares were duly redeemed, and

(c) On 30th September, 2015, a bonus issue of ordinary shares was made at the rate of one new share for every ten then held.

You are required to pass the necessary journal entries to record these transactions (including those relating to cash) having regard to the director's wishes that only the minimum reduction should be made in revenue reserves. **(T.Y.B.Com., Modified, M.U.)**

Working Notes

1. Premium on Redemption = Share Premium + Profit
   (Existing + Expected)
   (Nil + 5,000)
   2,500 = 2,500 + Nil
2. NV of Preference Share to be redeemed = Proceed of fresh issue + Profit available for dividend
   50,000 = 20,000 + 30,000

Solution: **Journal of Traders Ltd.**

	Particulars			Debit	Credit
31/5/86	Fresh issue of shares:				
	Cash/Bank A/c	Dr.		25,000	
	To Equity Shares Capital A/c				20,000
	To Share Premium A/c				5,000
31/5/86	Sale of investment:				
	Cash/Bank A/c	Dr.		18,000	
	To Investment A/c				14,000
	To Profit and Loss A/c				4,000
1/7/86	Transfer amount payable to preference shareholder:				
	6% Preference Share Capital A/c	Dr.		50,000	
	Premium of Redemption A/c	Dr.		2,500	
	To Preference Shareholders A/c				52,500
1/7/86	Write off premium on redemption:				
	Share Premium A/c	Dr.		2,500	
	To Premium on Redemption A/c				2,500
1/7/86	Transfer to CRR:				
	Profit and Loss A/c	Dr.		30,000	
	To CRR A/c				30,000
1/7/86	Payment:				
	Preference Shareholders A/c	Dr.		52,500	
	To Cash/Bank A/c				52,500
30/9/86	Issue of Bonus Shares				
	Bonus : Existing 1,00,000 - Balance Sheet				
	1 : 10 20,000 - Fresh Issue				
	(?) : 1,20,000 1,20,000				
	∴ 12,000 Equity Shares of ₹ 1/- = 12,000				
	(a) CRR A/c	Dr.		12,000	
	To Bonus to Equity Shareholder A/c				12,000
	(b) Bonus to Equity Shareholder A/c	Dr.		12,000	
	To Equity Share Capital				12,000

Illustration 13: Raj Rajeshwari Ltd. has been incorporated with an authorised share capital of ₹ 50,00,000. Its summarised balance sheet on 30th June, 2015 was as under:

Liabilities	₹	Assets	₹
Share Capital		Fixed Assets	5,00,000
Equity Share Capital	3,00,000	Investments	1,00,000
25,000 9% Redeemable Preference Shares	2,50,000	Current Assets (including bank balance ₹ 90,000)	4,00,000
Reserves and Surplus:			
Share Premium	1,50,000		
General Reserve	1,50,000		
Profit and Loss A/c	25,000		
Creditors	1,25,000		
	10,00,000		**10,00,000**

The company passed the following resolutions on 1st July, 2014:

(i) To redeem whole of the preference share capital at a premium of 10%.

(ii) To issue 1,000 equity shares of ₹ 100 each at a premium of ₹ 15 per share.

(iii) To sell the investments.

(iv) To issue bonus shares, fully paid, in the ratio of 1 : 2 to the existing shareholders, as increased by new issue.

Draft the journal entries and prepare the new balance sheet, having been informed that:

(a) All the resolutions have been given effect to.

(b) The new issue is fully subscribed and paid up.

(c) The investments are sold for ₹ 90,000. **(T.Y.BAF, Modified, M.U.)**

Solution: **Journal of Raj Rajeshwari Ltd.**

	Particulars			Debit	Credit
1	Fresh issue of shares:				
	Cash/Bank A/c	Dr.		1,15,000	
	To Equity Share Capital A/c				1,00,000
	To Share Premium A/c				15,000
2	Sale of investments:				
	Cash/Bank A/c	Dr.		90,000	
	Profit and Loss A/c	Dr.		10,000	
	To Investments A/c				1,00,000
3	Transfer amount payable to preference shareholders:				
	9% Preference Share Capital A/c	Dr.		2,50,000	
	Premium an Redemption A/c	Dr.		25,000	
	To Preference Shareholders A/c				2,75,000
4	Write off premium on redemption:				
	Share Premium A/c	Dr.		25,000	
	To Premium on Redemption A/c				25,000
5	Transfer to CRR A/c:				
	General Reserves A/c	Dr.		1,50,000	
	To CRR A/c				1,50,000
6	Payment to Preference Shareholder A/c:				
	Preference Shareholders A/c	Dr.		2,75,000	
	To Cash/Bank A/c				2,75,000

7	Issue of Bonus Shares Bonus : Existing 1 : 2 (?) : 4,000 Shares [3,000 sh. (B/S) + 1,000 sh. (Fresh issue)] ∴ 2,000 Equity Shares of ₹ 100/- = 2,00,000		
	(a) CRR A/c Dr.	1,50,000	
	Share Premium A/c Dr.	50,000	
	To Bonus to Equity Shareholders A/c		2,00,000
	(b) Bonus to Equity Shareholders A/c Dr.	2,00,000	
	To Equity Share Capital A/c		2,00,000

Cash/Bank A/c

Particulars	Amount	Particulars	Amount
To Opening Balance b/d	90,000	By Preference Shareholder	2,75,000
To Fresh Issue	1,15,000	By Balance c/f	20,000
To Sale of Investment	90,000		
	2,95,000		**2,95,000**

Balance Sheet as on .....

Particulars	₹	₹
[I] Equity and Liabilities		
1. Share Capital:		
Equity Share Capital		6,00,000
Preference Share Capital		–
2. Reserves and Surplus:		
Securities Premium	90,000	
Profit and Loss A/c	15,000	1,05,000
3. Share Application Money Pending Allotment		–
4. Non-current Liabilities		–
5. Current Liabilities:		
Creditors		1,25,000
Total		**8,30,000**
[II] Assets		
1. Non-current Assets:		
(a) Fixed Assets:		5,00,000
Tangible		
Intangible		
(b) Non-current Investment		
(c) Other Non-current Investments		
2. Current Assets:		3,10,000
Inventory		–
Trade Receivable		–
Cash and Cash Equivalent		20,000
Other Current Assets		
Total		**8,30,000**

Illustration 14: Below is given the Balance Sheet of Mamta Co. Ltd. as on 31st March, 2015.

Liabilities	₹	Assets	₹
Authorised, Issued and Paid-up Capital:		Cash at Bank	2,20,000
1,00,000 Equity Shares of ₹ 10 each	10,00,000	Sundry Assets	16,00,000

4,000 5% Redeemable Preference Shares of ₹ 100 each	4,00,000		
Profit and Loss A/c	2,70,000		
Sundry Creditors	1,50,000		
	18,20,000		**18,20,000**

The preference shares fell due for redemption on 1st April, 2015. The shares were to be redeemed at a premium of 5%. As the profit balance was insufficient to redeem the preference shares, the company decided to issue for the purpose of redemption, 2,000 7½% Preference shares ₹ 100 each payable 25% on application, 50% on allotment and the balance on call. The share monies were duly collected and the preference shareholders were paid off. The company now decided to declare a bonus out of the credit balance of the Capital Redemption Reserve Account. Necessary arrangement were made and the Shareholders were given the bonus in the shape of 7½% Preference Shares. This wiped out of the entire balance of the Capital Redemption Reserve Account. You have been asked to give the Journal Entries recording the above transactions in the books of the company.

(T.Y.B.Com., Modified, P.U.)

Solution: **Journal of Mamta Ltd.**

	Particulars			Debit	Credit
1	For fresh issue of shares:				
	(a) Bank A/c (2,000 × 25)	Dr.		50,000	
	To Share Application A/c				50,000
	(b) Share Application A/c	Dr.		50,000	
	To 7½% Preference Share Capital A/c				50,000
	(c) Share Allotment A/c (2,000 × 50)	Dr.		1,00,000	
	To 7½% Preference Share Capital A/c				1,00,000
	(d) Bank A/c	Dr.		1,00,000	
	To Share Allotment A/c				1,00,000
	(e) Share final call (2,000 × 25)	Dr.		50,000	
	To 7½% Preference Share Capital A/c				50,000
	(f) Bank A/c	Dr.		50,000	
	To Share Final Call A/c				50,000
2	For premium on redemption:				
	Profit and Loss A/c	Dr.		20,000	
	To Premium on Redemption A/c (5% of 4,00,000)				20,000
3	For transfer:				
	5% Preference Share Capital A/c	Dr.		4,00,000	
	Premium on Redemption A/c	Dr.		20,000	
	To Preference Shareholders A/c				4,20,000
4	For payment:				
	Preference Shareholders A/c	Dr.		4,20,000	
	To Bank A/c				4,20,000
5	For transfer to CRR:				
	Profit and Loss A/c	Dr.		2,00,000	
	To CRR A/c				2,00,000
6	Declaration of bonus:				
	CRR A/c	Dr.		2,00,000	
	To Bonus to Shareholders A/c				2,00,000

7	Issue of bonus shares: Bonus to Shareholders A/c..... Dr. To 7% Preference Share Capital A/c		2,00,000	2,00,000
	Preference Shares = Proceeds of Fresh Issue + CRR 4,00,000 = 2,00,000 + 2,00,000 (P & L) (4,000 × 100) (2,000 × 100)			

Illustration 15: Change Ltd. had an issued share capital of ₹ 65,000 7% Redeemable Cumulative Preference Share of ₹ 10/- each and 22,500 ordinary shares of ₹ 10/- each. The preference shares are redeemable at a premium of 7½% on 1st August, 2015:

As on 31st July, 2015, the company's Balance Sheet showed the following position:

Liabilities	₹	Assets	₹
Issued Share Capital		Sundry Assets	3,46,000
6,500 7% Redeemable Cumulative		Balance at Bank	47,500
Preference Share of ₹ 10 fully paid	65,000		
22,500 Equity Shares of ₹ 10 each			
fully paid	2,25,000		
Profit and Loss A/c	46,000		
Sundry Creditors	57,500		
	3,93,500		**3,93,500**

In order to facilitate the Redemption of the Preference Shares, it was decided:

(a) to finance part of the redemption from Company Funds, subject to leaving a balance on Profit and Loss Account of ₹ 10,000 and

(b) to issue sufficient number of Equity Shares at a premium of ₹ 2.50 per share to raise the balance of funds required.

The Preference Shares were redeemed on the due date and the issue of ordinary shares was fully subscribed.

You are required to prepare:

(i) the necessary journal Entries to record the above transactions (including cash) and

(ii) the Balance Sheet as on completion. **(CA/T.Y.BAF, Modified)**

Solution: **Journal of Change Ltd.**

	Particulars		Debit	Credit
1	For fresh issue of shares:			
	Bank A/c (2,900 × 12.50)	Dr.	36,250	
	To Equity Share Capital A/c			29,000
	To Share Premium A/c (2,900 × 2.50)			7,250
2	For premium on redemption:			
	Share Premium A/c	Dr.	4,875	
	To Premium on Redemption A/c			4,875
3	For transfer:			
	7% Preference Share Capital A/c	Dr.	65,000	
	Premium on Redemption A/c	Dr.	4,875	
	To Preference Shareholders A/c			69,875
4	For payment:			
	Preference Shareholders A/c	Dr.	69,875	
	To Bank A/c			69,875

5	For CRR:			
	Profit and Loss A/c	Dr.	36,000	
	To CRR A/c			36,000

NV of Preference Shares = Proceeds of Fresh Issue + CRR

65,000 = 29,000 + 36,000 (P & L)

(6,500 × 10) (2,900 × 10) (46,000 – 10,000)

Premium on Redemption = Share Premium + Profits

= (Existing + Expected) (7250 + Nil)

4875 = 4875 + Nil

Balance Sheet fo Change Ltd.

	Particulars	₹	₹
[I]	**Equity and Liabilities**		
	1. Shareholders' Fund:		
	Equity Share Capital		2,54,000
	2. Reserves and Surplus:		
	Profit and Loss	10,000	
	CRR	36,000	
	Securities Premium	2,375	48,375
	3. Share Application Money Pending Allotment		–
	4. Non-current Liabilities		
	5. Current Liabilities:		
	Creditors		57,500
	Total		**3,59,875**
[II]	**Assets**		
	1. Non-current Assets:		
	(a) Fixed Assets:		
	Sundry Assets		3,46,000
	(b) Non-current Investment		–
	(c) Other Non-current Assets		–
	2. Current Assets:		–
	(a) Inventory		–
	(b) Trade Receivable		-
	(c) Cash and Cash Equivalent		13,875
	(d) Other Current Assets		
	Total		**3,59,875**

Illustration 16: The summarised Balance Sheet of XYZ Ltd. as at 31st December, 2015.

Liabilities	₹	Assets	₹
Equity Shares of ₹ 10 each fully paid	9,00,000	Fixed Assets	20,00,000
8% Redeemable Preference Shares of ₹ 10		Current Assets	
each fully paid	9,00,000	(Including Bank Balance of ₹ 2,00,000)	5,80,000
General Reserve	3,60,000	Investments	2,70,000
Profit and Loss A/c	5,40,000		
Securities Premium A/c	27,000		
Creditors	1,23,000		
	28,50,000		**28,50,000**

The company exercises the option to redeem 8% Redeemable Preference Shares at 10% premium and for this purpose the company issued 45,000 Right Shares of ₹ 10 each at a premium of ₹ 10 per share. The right shares were fully paid in cash.

The company also sold out the investments at ₹ 3,42,000. All payments were made except for those holding 450 shares, who could not be found out.

The director then issued bonus shares to the shareholders after issue of new shares, at the rate of 2 shares for 3 shares held at 5% premium. The company decided to reduce the reserve to minimum.

Pass Journal entries in the books of XYZ Ltd. for above transactions and also prepare Balance Sheet of the company after redemption is completed. **(CA Modified)**

Solution: **Journal of XYZ Ltd.**

	Particulars		Debit	Credit
1	For fresh issue:			
	Bank A/c	Dr.	9,00,000	
	To Equity Share Capital A/c			4,50,000
	To Share Premium A/c			4,50,000
2	Sale of investments:			
	Bank A/c	Dr.	3,42,000	
	To Investment A/c			2,70,000
	To Profit and Loss A/c			72,000
3	For premium on redemption:			
	Share Premium A/c	Dr.	90,000	
	To Premium on Redemption A/c (10% of 9,00,000)			90,000
4	For transfer:			
	8% Preference Share Capital A/c	Dr.	9,00,000	
	Premium on Redemption A/c		90,000	
	To Preference Shareholders A/c			9,90,000
5	For payment:			
	Preference Shareholders A/c	Dr.	9,85,050	
	To Bank A/c (450 × 11 = 4,950)			9,85,050
	(9,90,000 × 4,950 = 9,85,050)			
6	Transfer to CRR:			
	Profit and Loss A/c	Dr.	4,50,000	
	To CRR A/c			4,50,000
7	Declaration of bonus:			
	Shareholders Bonus			
	3 : 2			
	1,35,000 : ?			
	(90,000)			
	× 10.5			
	Amount of Bonus 9,45,000			
	CRR A/c	Dr.	4,50,000	
	Share Premium A/c (27 + 450 – 90)	Dr.	3,87,000	
	General Reserve A/c	Dr.	1,08,000	
	To Bonus to Shareholders A/c			9,45,000

8	Issue of bonus shares: Bonus to Shareholders A/c Dr. To Equity Share Capital A/c To Share Premium A/c NV of Preference Shares = Proceeds of fresh issue + CRR 9,00,000 = 4,50,000 + 4,50,000 (P & L)	 9,45,000	 9,00,000 45,000

Balance Sheet as on ......

	Particulars	Debit	Credit
[I]	**Equity and Liabilities**		
	1. Share Capital:		
	Equity Share Capital		22,50,000
	Preference Share capital		
	2. Reserves and Surplus:		
	General Reserve	2,52,000	
	Profit and Loss	1,62,000	
	Securities Premium	45,000	4,59,000
	3. Share Application Money Pending Allotment		
	4. Non-current Liabilities:		
	Creditors	1,23,000	
	Unclaimed Preference Shareholder	4,950	127950
	5. Current Liabilities		-
	Total		**28,36,950**
[II]	**Assets**		
	1. Non-current Assets:		
	(a) Fixed Assets:		20,00,000
	Intangible		–
	(b) Non-current Investment		–
	(c) Other Non-current Assets		–
	2. Current Assets:		
	Inventory		–
	Trade Receivable		–
	Cash and Cash Equivalent		4,56,950
	Other Current Assets		3,80,000
	Total		**28,36,950**

Illustration 17: The Balance Sheet of Avantika Ltd. as at 31st December, 2015 was as follows:

Liabilities	₹	Assets	₹
Authorised and Issued Capital		Land and Buildings	15,000
1,00,000 Ordinary Shares of ₹ 1 each		Machinery	75,000
fully paid	1,00,000	Stock	37,500
50,000 6% Redeemable Preference		Work-in-progress	30,000
Shares fo ₹ 1 each fully paid	50,000	Sundry Debtors	26,750
Sundry Creditors	42,500	Sinking Fund Investments	25,000
Sinking Fund (or Preference Shares	25,000	Cash at Bank	43,650
Redemption)			
Profit and Loss A/c	35,400		
	2,52,900		**2,52,900**

The directors have given notice to redeem the preference shares at premium of 5% as provided in the company's Articles of Association. The Sinking Fund Investments have been sold for ₹ 23,750.

Prepare the ledger accounts necessary for recording the transactions relating to redemption and a summarised Balance Sheet showing the position after completing the above transactions.

(T.Y.BAF, Modified, M.U.)

Solution:

Sinking Fund Investment A/c

Particulars	₹	Particulars	₹
To Balance b/d	25,000	By Cash/Bank A/c	23,750
		By P & L A/c (loss)	1,250
	25,000		**25,000**

Cash/Bank A/c

Particulars	₹	Particulars	₹
To Balance b/d	43,650	By Preference Shareholders A/c	52,500
To Sinking Fund Investment A/c	23,750	By Balance b/d	14,900
	67,400		**67,400**

Sinking Fund

Particulars	₹	Particulars	₹
To CRR A/c	25,000	By Balance b/d	25,000
	25,000		**25,000**

Profit and Loss A/c

Particulars	₹	Particulars	₹
To Sinking Fund Investment A/c	1,250	By Balance b/d	35,400
To Premium on Redemption of Preference Shareholders	2,500		
To CRR A/c	25,000		
To Balance c/d	6,650		
	35,400		**35,400**

Premium on Redemption of Preference Shareholders A/c

	₹		₹
To Preference Shareholders A/c	2,500	By P & L A/c	2,500
	2,500		**2,500**

Preference Shareholders A/c

	₹		₹
To Cash/Bank A/c	2,500	By Preference Share Capital A/c	50,000
		By Prem on Redemption of Preference Share Capital A/c	2,500
	52,500		**52,500**

Balance Sheet as on .....

Particulars	₹	₹
[I] Equity and Liabilities		
1. Share Capital:		1,00,000
Equity Share Capital		
2. Reserves and Surplus:		
P & L A/c	6,650	
CRR	50,000	56,650
3. Share Application Money Pending Allotment		–
4. Non-current Liabilities		–

5. Current Liabilities:		
Creditors		42,500
Total		**1,99,150**
II. Assets		
1. Non-current Assets		
(a) Fixed Assets:		
Tangible:		
Land and Building	15,000	
Machinery	75,000	90,000
Intangible		–
(b) Non-current Investment		–
(c) Other Non-current Assets		–
2. Current Assets:		
Inventory		37,500
WIP		30,000
Trade Receivable		26,750
Cash and Cash Equivalent		14,900
Other Current Assets		–
Total		**1,99,150**

Face value of Preference Shares to be reduced = Fresh issue + Reserves

= Nil + $\boxed{50,000}$ CRR

Sinking Fund 25,000 Profit & Loss 25,000

Premium on Redemption of Preference Shares = Share Premium + Reserves (Existing + New)

25,0009 = Nil + 2,500 (P & L A/c)

Illustration 18: A company issued ₹ 1,80,000 Redeemable Preference Shares at par on 1st January, 2013, redeemable at the option of the company on or after 31st December, 2015 in whole or in part. The following redemption were made out of profits.

On 30th June, 2016 ₹ 60,000

On 30th June, 2017 ₹ 40,000

In December, 2017, the company issued equity shares of the face value of ₹ 60,000 at a premium of 2% and on 31st December in the same year, it redeemed the balance of preference shares. Pass the necessary journal entries to record the above transactions.

Solution: **XYZ Ltd.**

Face value of Preference Shares to be redeemed = Fresh issue + CRR

(1993) 60,000 = Nil + [60,000] (CRR)

(1994) 40,000 = Nil + [40,000] (CRR)

(1994) 80,000 = 60,000 + [20,000] (CRR)

		Particulars			Debit	Credit
[I]	1.	Redeemable Preference Share Capital A/c	Dr.		60,000	
		To Preference Shareholder A/c				60,000
		[Being amount transfer to preference shareholder]				
	2.	Preference Shareholders A/c	Dr.		60,000	
		To Cash/Bank A/c				60,000
		[Being Preference Shareholders paid off]				
	3.	Free Reserves A/c	Dr.		60,000	
		To CRR A/c				60,000
		[Being the regd. C.R.R. created]				
[II]	1.	Redeemable Preference Share Capital A/c	Dr.		40,000	
		To Preference Shareholder A/c				40,000
		[Being amount transfer to Preference Shareholders]				
	2.	Preference Shareholders A/c	Dr.		40,000	
		To Bank A/c				40,000
	3.	Free Reserves A/c	Dr.		40,000	
		To CRR A/c				40,000
		[Being the regd. CRR created]				
[III]	1.	Bank A/c (60,000 + 2%)	Dr.		61,200	
		To Equity Share Capital A/c				60,000
		To Share Premium A/c				1,200
	2.	Redeemable Preference Share Capital A/c	Dr.		80,000	
		To Preference Shareholder A/c				80,000
		(1,80,000 – 60,000 – 40,000)				
		(total) (1992) (1994)				
	3.	Preference Shareholders A/c	Dr.		80,000	
		To Cash/Bank A/c				80,000
	4.	Free Reserves A/c	Dr.		20,000	
		To CRR A/c				20,000

Illustration 19: Enkay Ltd.'s Balance Sheet on 31st March, 2015 reads as under:

Liabilities	₹	₹	Assets	₹
Share Capital			Fixed Assets	8,00,000
(₹ 100 each)			Investments	1,00,000
Equity	5,00,000		Stock	80,000
Less: Calls-in-arrears	10,000	4,90,000	Debtors	4,00,000
10% Preference	3,00,000		Bank	2,00,000
Less: Calls-in-arrears	10,000	2,90,000		
Securities Premium		50,000		
Capital Reserve		1,00,000		
General Reserve		2,00,000		
12% Debentures		3,00,000		
Creditors		1,50,000		15,80,000
		15,80,000		**15,80,000**

On same date, Preference Shares are redeemable @ Premium of 10% and Debentures repayable at par.

The Calls-in-Arrear on both classes of shares are @ ₹ 40 per share.

To enable redemption, company took the following measures:

(i) The remainders for calls were sent to all shareholders. The shareholders holding 100 Equity Shares and 150 Preference Shares paid the amount.

(ii) The remaining Preference Shares were forfeited and cancelled.

(iii) The remaining Equity Shares were forfeited and re-issued later on receipt of ₹ 60 per share.

(iv) Investments were sold for ₹ 1,20,000.

(v) 1000 Equity Shares were issued for cash consideration @ 20% Premium. The issue was fully subscribed and paid for.

(vi) A special discount @ 5% was offered to customers for immediate payments 50% of customers in value accepted the offer.

(vii) Bank Overdraft was arranged for balance of funds required.

You are required to show Journal Entries and revised Balance Sheet in compliances with Companies Act. **(T.Y.B.Com., Modified, M.U.)**

Solution: **Enkay Ltd.**

	Particulars			Debit	Credit
1	(a) Cash/Bank A/c	Dr.		4,000	
	To Calls-in-arrears A/c (100 Equity Shares × 10/-)				4,000
	(b) Cash/Bank A/c	Dr		6,000	
	To Calls-in-arrears A/c (150 Preference Shares × 40/-)				6,000
2	10% Preference Share Capital A/c (100 × 100/-)	Dr.		10,000	
	To Calls-in-arrears A/c (100 × 40/-)				4,000
	To Capital Reserve (Share Forfeited) (100 × 60/-)				6,000
3	(a) Equity Share Capital A/c (150 × 100/-)	Dr.		15,000	
	To Share Forfeiture A/c. (150 × 100/-)				9,000
	To Calls-in-arrears Account (150 × 40/-)				6,000
	(b) Cash/Bank A/c (150 × 60/-)	Dr.		9,000	
	Share Forfeiture A/c (150 × 60/-)			6,000	
	To Equity Share Capital A/c (150 × 40/-)				15,000
	(c) Share Forfeiture A/c	Dr.		3,000	
	To Capital Reserve A/c (9,000 – 6,000)				3,000
4	Cash/Bank A/c	Dr.		1,20,000	
	To Investment A/c				1,00,000
	To Profit and Loss A/c (Profit)				20,000
5	Cash/Bank A/c (1,000 × 120/-)	Dr.		1,20,000	
	To Equity Share Capital A/c				1,00,000
	To Share Premium A/c (1,000,000 × 20/-)				20,000
6	Cash/Bank A/c (2,00,000 – 10,000)	Dr.		1,90,000	
	Profit and Loss A/c (Discount Allowed)	Dr.		10,000	
	To Sundry Debtors (50% of 4,00,000)				2,00,000
7	Redemption of Preference Shares:				
	(i) For premium payable on redemption:				
	Share Premium A/c	Dr.		29,000	
	(10% of 2,90,000) (2,900 Shares × 100 = 2,90,000)				29,000
	To Premium on Redemption A/c				

	(ii) For transfer on preference shares:			
	10% Preference Share Capital A/c	Dr.	2,90,000	
	Premium to Preference Shareholders A/c	Dr.	29,000	
	To Preference Shareholders A/c			3,19,000
	(iii) For payment made:			
	Preference Shareholders A/c	Dr.	3,19,000	
	To Cash/Bank A/c			3,19,000
	(iv) For CRR:			
	NV of Preference Share Redeemed = Fresh Issue + CRR			
	2,90,000 = 1,00,000 + CRR			
	∴ CRR = 1,90,000 (P & L 10,000)			
	(Profit M. Inv. 20,000 – Dis. All 10,000) (GR 1,80,000)			
	Profit and Loss Account	Dr.	10,000	
	General Reserve A/c	Dr.	1,80,000	
	To CRR A/c			1,90,000
8	For redemption of debentures:			
	12% Debentures A/c	Dr.	3,00,000	
	To Cash/Bank A/c			3,00,000

Cash/Bank A/c

Particulars	Amount	Particulars	Amount
To Opening Balance b/d	2,00,000	By Preference Shareholders	3,19,000
To Calls-in-arrears Recd. (Equity)	4,000	By Debenture Holders	3,00,000
To Calls-in-arrears Recd. (Preference)	6,000	By Balance c/f	30,000
To Reissue of Equity Share	9,000		
To Investment	1,20,000		
To New Equity Shares	1,20,000		
To Debtors	1,90,000		
	6,49,000		**6,49,000**

Balance Sheet

	Particulars	₹	₹
[I]	**Equity and Liabilities**		
	1. Equity Shareholders' Fund:		
	Equity Share Capital		6,00,000
	2. Reserves and Surplus:		
	CRR	1,90,000	
	Securities Premium	41,000	
	Capital Reserve	1,09,000	
	General Reserve	20,000	3,60,000
	3. Share Application Allotment Money Pending		Nil
	4. Non-current Liabilities		
	5. Current Liabilities:		
	Creditors		1,50,000
	Total		**11,10,000**
[II]	**Assets**		
	1. Non-current Assets:		
	(a) Fixed Assets		8,00,000
	(b) Non-current Investment		
	(c) Other Non-current Assets		

	2. Current Assets:		
	(a) Inventory		80,000
	(b) Trade Receivable:		
	Debtors		2,00,000
	(c) Cash and Cash Equivalent		30,000
	(d) Other Current Assets		30,000
	Total		**11,00,000**

Illustration 20: Teebee Limited had issued 1,50,000 10% preference shares of ₹ 10 each, redeemable at premium of 10% on 31st December, 2015.

The Dividend for 2015 is yet to be paid.

The Company had adequate balance in General Reserves.

To provide funds for redemption, company:

(i) Sold investments costing ₹ 2,00,000 for ₹ 3,00,000.

(ii) Issued for cash – 2,500, 15% Debentures of ₹ 100 at par.

(iii) Issued – 50,000 equity shares of ₹ 10 at premium of ₹ 4 per share.

The payment of dividend, premium and capital was duly carried out.

Show journal entries. **(T.Y.B.Com., Modified, M.U.)**

Solution: **Teebee Limited**

	Particulars		Debit	Credit
1	(a) For dividend proposed:			
	General Reserve A/c Dr.		1,50,000	
	To Proposed Divided A/c (10% of 15,00,000 capital)			1,50,000
	(b) For dividend paid:			
	Proposed Dividend A/c Dr.		1,50,000	
	To Cash Bank A/c			1,50,000
2	For sale of investments:			
	Cash/Bank A/c Dr.		3,00,000	
	To Investment A/c			2,00,000
	To Profit and Loss A/c (Profit on sale)			1,00,000
3	For fresh issue of debentures:			
	Cash/Bank A/c Dr.		2,50,000	
	To 15% Debentures A/c (2,500 × 100/-)			2,50,000
4	For fresh issue of equity shares:			
	Cash/Bank A/c Dr.		7,50,000	
	To Equity Share Capital A/c (50,000 × 10)			5,00,000
	To Share Premium A/c (59,000 × 4)			2,00,000
5	For redemption:			
	(a) For premium on redemption:			
	Share Premium A/c Dr.		1,50,000	
	To Premium on Redemption A/c (10% of 15,00,000)			1,50,000
	(b) For transfer of Capital and Premium:		15,00,000	
	10% Preference Share Capital A/c		1,50,000	
	Premium on Redemption A/c			
	To Preference Shareholders A/c			16,50,000

(c)	For payment: Preference Shareholders A/c To Cash/Bank A/c	Dr.	16,50,000	16,50,000
(d)	For CRR: General Reserve A/c To CRR A/c	Dr.	10,00,000	10,00,000
	NV = FI + CRR 15,00,000 = 5,00,000 + CRR ∴ CRR = 10,00,000			

EXERCISES

Theory Questions

1. Explain the provisions of the Companies Act, 1956 regarding redemption of preference shares. ***(Oct. 97, Oct. 98, Apr. 99, Apr. 2001, Oct. 2001)***
2. Write a note on Capital Redemption Reserve. ***(Apr. 98)***
3. Distinguish between Redemption of Shares and Buyback of Shares. ***(Oct. 2004)***
4. Give any two items each of 'Divisible Profits' and 'Non-divisible Profits' for the purpose of redemption of preference shares. ***(March 2006)***

Objective Type Questions

(I) Fill in the Blanks:

1. ______ paid preference shares cannot be redeemed.
2. Redeemable preference shares can be redeemed out of ______ profit of the company.
3. If some shareholders cannot be paid because they cannot be traced etc., the credit balance in the preference shareholders account indicating such unpaid balance should be shown under ______ in the Balance Sheet.
4. If redeemable preference shares are redeemed at a premium, the premium must be provided for out the company's ______ account; or out of the profits of the company.
5. When redeemable preference shares are redeemed out of divisible profits of the company, an amount equal to the nominal value of the share redeemed must be transferred from the divisible profit to the ______ Account.
6. Redemption of preference shares is not taken to mean reduction of ______ capital of the company.
7. Preference shares, on which calls are in arrears, should be (ignored/considered) for the purpose of redemption.
8. Workmen's Compensation Fund balance (is/is not) divisible profit available for redemption of preference shares.
9. Shares Forfeited Account balance (is/is not) divisible profit available for redemption of preference shares.
10. Investment Fluctuation Reserve balance (is/is not) divisible profit available for redemption of preference shares.
11. Revaluation Reserve balance (is/is not) divisible profit available for redemption of preference shares.
12. Debenture Redemption Reserve balance (is/is not) divisible profit available for redemption of preference shares.

13. Preference shares redeemable within ______ years can be issued.
14. Capital redemption reserve may be used for issuing ______ shares. (bonus, rights)
15. Where a company redeems preference shares from out of profits it is necessary for the company to transfer the nominal value of shares redeemed to a ______ A/c.
16. A company may issue redeemable preference shares if so authorised by its ______.

[**Ans.:** 1. Partly, 2. Divisible, 3. 'Current Liabilities', 4. Security Premium, 5. Capital Redemption Reserve, 6. Authorised, 7. Ignored, 8. is, 9. is not, 10. is, 11. is not, 12. is not, 13. 20, 14. Bonus, 15. Capital Redemption Reserve, 16. Articles.]

(II) State Whether the Following Statements are True or False:

1. Redemption of redeemable preference shares can be made only out of the proceeds of fresh issue of equity shares.
2. A company can redeem only fully paid preference shares.
3. Premium payable on redemption of redeemable preference shares must be debited against profits only.
4. Capital redemption reserve account can be utilised for writing off miscellaneous expenditure and loss.
5. To the extent redemption of preference shares takes place from out of profits an equal amount should be transferred to General Reserve.
6. Transfer to capital redemption reserve account on redemption of preference shares can be made from Security Premium Account.
7. Capital redemption reserve account cannot be used for declaring bonus for making partly paid shares fully paid.
8. Partly paid preference shares cannot be redeemed.
9. Capital Redemption Reserve amount can be utilised for writing off share issue expenses.
10. On redemption of preference shares out of profits, a sum equal to the nominal value of shares so redeemed should be transferred from the Profit and Loss A/c to the General Reserve.
11. Redemption of preference shares shall be taken as reduction of company's authorised share capital.
12. Premium on redemption of preference shares can be met out of security premium account.
13. Redeemable preference shares can be issued if authorised by the Articles of Association of the company.
14. Redeemable preference shares can be redeemed only out of the profits of the company.
15. Dividend equalisation reserve can be used as divisible profits while redeeming preference shares.

[**Ans.:** **True:** 2, 7, 8, 12, 13,
False: 1, 3, 4, 5, 6, 9, 10, 11, 14, 15.]

(III) Match the Columns:

(A)

Group A	**Group B**
1. Partly paid preference shares	(a) Does not result in reduction of authorised capital of the company
2. Irredeemable preference shares	(b) Existing Security Premium Account
3. Maximum period for redemption of preference shares	(c) Cannot be redeemed

4. Redemption of preference shares	(d) On redemption of preference shares out of divisible profits
5. If Redemption Preference shares are redeemed at a premium, the premium can be provided for out of	(e) Can be used only for issue of fully paid bonus shares
6. Amount equal to Nominal Value of shares redeemed transferred to Capital Redemption Reserve	(f) Results in reduction of paid-up capital of the company
7. Capital Redemption Reserve	(g) Can be used for declaring bonus for making partly paid shares fully paid
	(h) Cannot be issued
	(i) One redemption of preference shares out of proceeds of fresh issue of shares
	(j) 10 years from the date of issue

[**Ans.:** 1. (c), 2. (h), 3. (j), 4. (a), 5. (b), 6. (d), 7. (e)]

(B)

Group A	**Group B**
1. On forfeiture of preference shares for non-payment of call	(a) Nominal value of Preference shares redeemed Less Proceeds of new shares issued
2. Profit on forfeiture of preference shares	(b) Amount called up is debited to redeemable Preference Shares A/c
3. Divisible profit	(c) Proceeds of new shares issued Less Nominal value of Preference Shares redeemed
4. Profits not divisible	(d) Show under Current Liabilities in Balance Sheet
5. Transfer to Capital Redemption Reserve	(e) Transferred to Capital Redemption Reserve A/c
6. Unpaid balance in Preference Shareholders Account	(f) Show under Share Capital in Balance Sheet
	(g) Transferred to Capital Reserve A/c
	(h) Capital Reserve
	(i) Sinking Fund after deducting liability
	(j) Amount paid up is debited to Redeemable Preference Shares A/c

[**Ans.:** 1. (b), 2. (g), 3. (i), 4. (h), 5. (a), 6. (d)]

(C)

Group A	**Group B**
1. Dividend Equalisation Reserve	(a) CRR = NV of RP Shares Redeemed Less Amount Received on New Share Issue
2. Pre-incorporation profits	(b) Issue of Full Paid-up Bonus Shares
3. If preference shares redeemed entirely out of profits	(c) Divisible profits available for redemption of preference shares
4. If preference shares redeemed partly out of new issue at par	(d) CRR = 50,000 – 30,000 = ₹ 20,000

5.	NV of Minimum New Share Issue	(e)	Cannot be used for meeting premium payable on redemption of preference shares
6.	Use of Capital Redemption Reserve	(f)	CRR = Proceeds of New Shares Issue Less NV of RP Shares Redeemed
7.	Premium received on new shares issued before redemption of preference shares	(g)	Capital profits not available for redemption of preference shares
8.	5,000 preference shares of ₹ 10 each redeemable at par; New issue of 3,000 shares of ₹ 10 each at premium of 5%	(h)	NV of RP Shares Redeemed Less Divisible Profits
9.	5,000 preference shares of ₹ 10 each redeemable at par; New issue of 3,000 shares of ₹ 10 each at discount of 5%	(i)	Bonus for making partly paid-up shares fully paid
		(j)	Can be used for meeting premium payable on redemption of Preference Shares
		(k)	CRR = Nominal Value of Preference Shares Redeemed
		(l)	CRR - Price at which Preference Shares Redeemed
		(m)	CRR = 50,000 – 27,000 = ₹ 23,000
		(n)	CRR = 50,000 – 30,000 – 1,500 = ₹ 18,500

[**Ans.:** 1. (c), 2. (g), 3. (k), 4. (a), 5. (h), 6. (b), 7. (j), 8. (d), 9. (m)]

(IV) Multiple Choice Questions:

1. The following statement is false.
   (a) A company can issue preference shares which are redeemable
   (b) A company can issue irredeemable preference shares
   (c) The maximum period for redemption is 10 years form the date of issue
   (d) All
2. The following statement is true.
   (a) Partly paid preference shares can be redeemed
   (b) Preference shares on which calls are unpaid can be redeemed
   (c) Only fully paid preference shares can be redeemed
   (d) None of the above.
3. Redeemable preference shares can be redeemed __________.
   (a) Only out of the proceeds of the fresh issue of shares
   (b) Only out of divisible profits
   (c) Out of fresh issue of shares and/or out of the divisible profits
   (d) None of the above
4. If Redeemable preference shares are redeemed at a premium, the premium cannot be provided for __________.
   (a) Out of the company's security premium account
   (b) Out of the profits of the company

(c) Out of the proceeds of the fresh issue of shares at par
(d) None of the above

5. Redemption of preference shares __________.
(a) is taken to mean reduction of called up capital of the company to the extent of nominal value of shares redeemed
(b) is not taken to mean reduction of authorised capital of the company
(c) is taken to mean reduction of paid-up capital of the company to the extent of nominal value
(d) is taken to mean reduction of paid-up capital of the company to the extent of divisible profits less nominal value of fresh share issued

6. Capital redemption reserve account can be used __________.
(a) for declaring bonus for making partly paid shares fully paid
(b) for issuing fully paid up bonus shares to the equity shareholders
(c) partly for issuing fully paid up bonus shares to the equity shareholders and partly for declaring bonus for making partly paid shares fully paid
(d) for none of the above

7. The following balance is not available for transfer to Capital Redemption Reserve.
(a) General Reserve (b) Dividend Equalisation Fund
(c) Revaluation Reserve (d) Profit and Loss Account

8. Which of the following balances is available for transfer to Capital Redemption Reserve?
(a) Forfeited Shares Account (b) Profit prior to Incorporation
(c) Investment Allowance Reserve (d) None of the above

9. When preference shares are redeemed out of profits, the amount equal to the nominal value of shares redeemed should be transferred to __________.
(a) Capital Reserve Account (b) Capital Redemption Reserve Account
(c) General Reserve Account (d) Sinking Fund Account

10. When preference shares are redeemed out of profit, the amount be transferred to Capital Redemption Reserve should be equal to __________.
(a) Premium payable on redemption
(b) Amount payable on redemption
(c) The nominal value of shares redeemed
(d) The nominal value of shares redeemed less premium received on fresh issue of shares

11. If preference shares are redeemed at premium, such premium may be provided out of __________.
(a) Security Premium Account or Profit and Loss Account
(b) Proceeds of fresh issue of shares
(c) Forfeited Shares Account
(d) Capital Redemption Reserve Account

12. Capital redemption reserve account __________.
(a) May be created at the option of the company, on redemption of preference shares
(b) Must be created to comply with law, on redemption of preference shares
(c) Must be created to comply with law, on conversion of preference shares into equity shares
(d) Is created out of Forfeited Shares Account, on forfeiture of shares

13. The Capital Redemption Reserve A/c can be used for __________.
    (a) Payment of dividend
    (b) Writing off accumulated losses
    (c) Issue of fully paid shares
    (d) For all of the above
14. Which of the following statements is false?
    (a) Proceeds of fresh issue of shares, for the purpose of redemption of preference shares, is equal to Face Value of shares, if shares are issued at par
    (b) Proceeds of fresh issue of shares, for the purpose of redemption of preference shares, is equal to Issue price of shares, if shares are issued at premium
    (c) Proceeds of fresh issue of shares, for the purpose of redemption of preference shares, is equal to Face Value of shares Less Discount, if shares are issued at discount
    (d) All of the above
15. Which of the following redeemable preference shares of ₹ 10 are eligible for redemption?
    (a) On which application and allotment money of ₹ 5 has been paid by cheque
    (b) On which application and allotment money of ₹ 8 has been paid in cash
    (c) On which application and allotment money of ₹ 10 has been paid
    (d) All of the above
16. If preference shares are redeemed by conversion into equity shares, then, the amount transferred to Capital Redemption Reserve is __________.
    (a) Nil
    (b) Equal to the face value of preference shares redeemed
    (c) Equal to the face value of the equity shares issued
    (d) Difference between the face value of the preference shares redeemed and the equity shares issued
17. Provisions regarding redemption of preference shares are given in __________.
    (a) Section 78 of Companies Act, 1956
    (b) Section 81 of Companies Act, 1956
    (c) Section 77A of Companies Act, 1956
    (d) None of the above
18. Balance of Capital redemption Reserve Account is shown under Liabilities side of the Balance Sheet under __________.
    (a) Share Capital
    (b) Non-current Liabilities
    (b) Reserves and Surplus
    (d) Current Liabilities
19. Balance of Capital Redemption Reserve Account can be utilised for __________.
    (a) Payment of dividend
    (b) Declaring bonus to make partly paid shares into fully paid-up shares
    (c) (a) or (b)
    (d) None of (a) or (b)
20. Profit on forfeiture of redeemable preference shares is credited to __________.
    (a) Capital Reserve A/c
    (b) Capital Redemption Reserve A/c
    (b) Profit and Loss A/c
    (d) General Reserve A/c
21. A company cannot issue __________.
    (a) Redeemable cumulative preference shares
    (b) Redeemable non-cumulative preference shares
    (c) Redeemable participating preference shares
    (d) Irredeemable preference shares

22. Preference shares can be redeemed __________.
    (a) Out of profit only
    (b) Out of proceeds of fresh issue only
    (c) Out of capital profit only
    (d) Out of proceeds of fresh issue and or profit otherwise available for distribution by way and dividend
23. To the extent preference shares have been redeemed out of profits, amount equal to the face value of preference shares redeemed should be transferred to __________.
    (a) Development Rebate Reserve (b) General Reserve
    (c) Sinking Fund (d) Capital Redemption Reserve
24. X Co. Ltd. has to redeem 1,000 preference shares of ₹ 100 each at 10% premium. It issues 5,000 equity shares of ₹ 10 each at 10%. General Reserve amount transferred to capital redemption reserve will be __________.
    (a) ₹ 1,00,000 (b) ₹ 50,000
    (b) ₹ 55,000 (d) ₹ 1,10,000
25. A company cannot issue redeemable preference shares for a period exceeding __________.
    (a) 6 years (b) 7 years
    (b) 8 years (d) 20 years
26. A company can issue redeemable preference shares __________.
    (a) only at par (b) only at premium
    (c) only at discount (d) All of the three
27. S. Ltd. issued 2,000, 10% Preference shares of ₹ 100 each at par, which are redeemable at a premium of 10%. For the purpose of redemption, the company issued 1,500 Equity Shares of ₹ 100 each at a premium of 20% per share. At the time of redemption of Preference Shares, the amount to be transferred by the company to the Capital Redemption Reserve Account will be __________.
    (a) ₹ 50,000 (b) ₹ 40,000
    (c) ₹ 2,00,000 (d) ₹ 2,20,000
28. Light Ltd. has 10,000 5% preference shares of ₹ 10 each to be redeemed after 5 years. The company forfeited 500 preference shares on which final call of ₹ 2 has not been received after due notice and cancelled these shares on account of redemption. Remaining shares were redeemed out of reserves of the company. The amount to be credited to capital redemption reserve will be __________.
    (a) ₹ 1,00,000 (b) ₹ 95,000
    (c) ₹ 99,000 (d) ₹ 99,500
29. Indigo ltd. had 9,000, 10% redeemable preference shares of ₹ 10 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 a discount of 10%. The number of equity shares issued should be __________.
    (a) 9,000 (b) 11,000
    (c) 10,000 (d) None of the above
30. Ankush Ltd. had issued 10,000, 10% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company decided to redeem these preference shares at par, by issue of

sufficient number of equity shares of ₹ 10 each at a premium of ₹ 2 per share as fully paid up. The amount to be transferred to capital redemption reserve account will be: __________.

(a) ₹ 10,00,000 (b) ₹ 12,00,000
(c) ₹ 8,00,000 (d) Nil

31. Which of the following statements is NOT TRUE with regard to redemption of preference shares?
(a) Partly paid shares cannot be redeemed
(b) The redemption of preference shares shall be taken as reduction of company's authorised share capital
(c) Preference share can be redeemed either out of the profit by capitalization or amount of fresh issue of shares
(d) None of the above

32. When Redeemable Preference share are due for redemption, the entry passed is __________.
(a) Debit Redeemable Preference Share Capital A/c; credit Cash A/c
(b) Debit Redeemable Preference Share Capital A/c; credit Preference Shareholders A/c
(c) Debit Preference Shareholders A/c; credit Cash A/c
(d) Debit Preference Shareholders A/c; credit Capital Reduction A/c

33. Which of the following cannot be utilised for the redemption of preference share of a company?
(a) Proceeds of fresh issue of shares
(b) General Reserve
(c) Securities premium on fresh issue of shares
(d) Dividend equalisation reserve

34. Which of the following statements is false?
(a) Redeemable preference share can be issued, if authorised by the articles of association
(b) The bonus issue can be made out of securities premium collected only in cash
(c) Redeemable preference share can be redeemed only when they are fully paid
(d) Redeemable preference shares can be redeemed only out of profits of the company

35. The company has 2,500, 11% redeemable preference shares of ₹ 100 each. These shares were due to be redeemed at a premium of 10%. The company has the following profits:
Profit prior to incorporation ₹ 40,000
Capital Reserve ₹ 40,000
Securities Premium ₹ 20,000
General Reserve ₹ 85,000
Profit and Loss Account ₹ 80,000
As the divisible profits are inadequate, the company issued the sufficient number of equity share of ₹ 10 each at a discount of 10%. What were the numbers of shares issued?
(a) 10,000 Equity Shares (b) 9,000 Equity Shares
(c) 8,000 Equity Shares (d) 7,000 Equity Shares

36. A Ltd. Company has to redeem Redeemable Preference Shares of the value of ₹ 1,00,000 for which the company has issued 3,000 equity shares of ₹ 10 each at a premium of 10%. The amount to be transferred to Capital Redemption Reserve Account will be __________.
    (a) ₹ 1,00,000 (b) ₹ 70,000
    (c) ₹ 1,10,000 (d) ₹ 67,000
37. From which of the following accounts can transfer be made to capital redemption reserve on redemption of preference shares?
    (a) Securities Premium (b) Capital Reserve
    (c) Profit Prior to Incorporation (d) General Reserve
38. The term 'Divisible Profits' means __________.
    (a) Profit available to shareholders for distribution as dividend
    (b) Profit as per P & L A/c
    (c) Profit as per P & L Appropriation A/c
    (d) None of the above
39. A company has issued 20,000 equity shares of ₹ 10 each, at a premium of 10%, to redeem 30,000 preference shares of ₹ 10 each. The amount to be transferred to Capital Redemption Reserve is __________.
    (a) ₹ 2,00,000 (b) ₹ 2,20,000
    (c) ₹ 1,00,000 (d) None of the above

40-43: X Ltd. decides to redeem 13,000, 15% Preference Shares of ₹ 100 each at 10% premium. It has a General Reserve of ₹ 9,10,000 and Securities Premium of ₹ 20,000. The minimum number of Equity Shares of ₹ 10 each to be issued for the purpose of redemption.

40. If the new equity shares are to be issued at 25% premium;
    (a) 60,000 (b) 45,000
    (c) 40,000 (d) None of these
41. If the new equity shares are to be issued at 20% discount;
    (a) 40,000 (b) 62,500
    (c) 60,000 (d) None of these
42. If the new equity share are to be issued at par;
    (a) 50,000 (b) 60,000
    (c) 40,000 (d) None of these
43. If the new equity shares are to be issued at 30% premium;
    (a) 50,000 (b) 62,500
    (c) 35,000 (d) 39,000

44-49: Calculate the amount to be transferred to Capital Redemption Reserve Account in each of the following cases:

44. **Redeemable Preference Shares** — **New Issue of Shares**
    ₹ 50,000 redeemable at par — ₹ 30,000 at par
    (a) 50,000 (b) 30,000
    (c) 20,000 (d) None of these
45. **Redeemable Preference Shares** — **New Issue of Shares**
    ₹ 50,000 redeemable at 5% premium — ₹ 30,000 at par

(a) 25,000 (b) 20,000
(c) 22,500 (d) None of these

46. **Redeemable Preference Shares** **New Issue of Shares**
₹ 50,000 redeemable at par ₹ 30,000 at premium of 5%
(a) 20,000 (b) 30,000
(c) 21,500 (d) None of these

47. **Redeemable Preference Shares** **New Issue of Shares**
₹ 50,000 redeemable at par ₹ 30,000 at discount of 10%
(a) 20,000 (b) 23,000
(c) 27,000 (d) None of these

48. **Redeemable Preference Shares** **New Issue of Shares**
₹ 50,000 redeemable at 5% premium ₹ 30,000 at premium of 10%
(a) 20,000 (b) 25,000
(c) 22,000 (d) None of these

49. Determine the amount of fresh issue of shares from the following information relating to Shagoon Leather Works Ltd.:
   1. Redeemable preference shares ₹ 2,00,000
   2. Premium on redemption 10%
   3. Divisible profits available ₹ 60,000
   4. Balance in general reserve ₹ 40,000
   5. Security Premium Accounts ₹ 25,000
   6. Fresh issue to be made at a discount of 10%.

   (a) Shares of a nominal amount of ₹ 1,00,000
   (b) Shares of nominal amount of ₹ 1,11,111
   (c) Shares of a nominal amount of ₹ 90,000
   (d) None of the above

[**Ans.:** 1. (b), 2. (c), 3. (c), 4. (c), 5. (b), 6. (b), 7. (c), 8. (d), 9. (b), 10. (c), 11. (a), 12. (b), 13. (c), 14. (b), 15. (c), 16. (a), 17. (a), 18. (c), 19. (d), 20. (a), 21. (d), 22. (d), 23. (d), 24. (b), 25. (d), 26. (d), 27. (a), 28. (a), 29. (c), 30. (d), 31. (b), 32. (b), 33. (c), 34. (d), 35. (b), 36. (b), 37. (d), 38. (a), 39. (c), 40. (c), 41. (b), 42. (a), 43. (d), 44. (c), 45. (b), 46. (a), 47. (b), 48. (a), 49. (b)]

Hints:

40. $(13{,}000 \times 100) + (13{,}000 \times 10) = 20{,}000 + 9{,}10{,}000 + (N \times 10) + (N \times 2.5) \therefore N = 40{,}000$

41. $(13{,}000 \times 100) + (13{,}000 \times 10) = 20{,}000 + 9{,}10{,}000 + (N \times 10) + (N \times 2) \therefore N = 62{,}500$

42. $(13{,}000 \times 10) + (13{,}000 \times 10) = 20{,}000 + 9{,}10{,}000 + (N \times 10) \therefore N = 50{,}000$

43. $(13{,}000 \times 10) = 9{,}10{,}000 + (N \times 10) \therefore N = 39{,}000$
New Premium $(39{,}000 \times 3)$ + Existing Premium ₹ 20,000 covers premium due of redemption $(13{,}000 \times 10)$. ∴ No need to use algebraic equation.

44. 50,000 – 30,000 = 20,000

45. 50,000 – 30,000; ignore premium on redemption

46. 50,000 – 30,000; ignore premium on issue.

47. 50,000 – 27,000 = 23,000; consider net proceeds = 30,000 × 90%

48. 50,000 – 30,000 = 20,000; ignore premium on both redemption as well as issue

49. 2,00,000 – (60,000 + 40,000) = 1,00,000 ÷ 90% = 1,11,111

Practical Problems

I. Redemption Partly Out of Profit + New Issue

1. Change Ltd. has an issued share capital of 6,500 7% redeemable cumulative preference shares of ₹ 10 each and 22,500 ordinary shares of ₹ 10 each. The preference shares are redeemable at a premium of 7½% on 1st August, 2015.

As on 31st July, 2015 the company's Summary Balance Sheet showed the following position:

Liabilities	₹	Assets	₹
Issued Share Capital		Sundry Assets	3,46,000
6,500 7% redeemable cumulative		Balance at Bank	47,500
preference shares of ₹ 10 each fully paid	65,000		
22,500 ordinary shares of ₹ 10 each fully paid	2,25,000		
Profit and Loss Account	46,000		
Sundry Creditors	57,500		
	3,93,500		**3,93,500**

In order to facilitate the redemption of the preference shares, it was decided:

(a) to finance part of the redemption form company funds, subject to leaving a balance on Profit and Loss Account of ₹ 10,000 and

(b) to issue sufficient number of ordinary shares at a premium of ₹ 2.50 per share to raise the balance of funds required.

The preference shares were redeemed on the due date, and the issue of ordinary shares was fully subscribed.

You are required to prepare:

(i) the necessary journal entries to record the above transactions (including cash) and

(ii) the Balance Sheet as on completion.

[Ans.: CRR ₹ 65,000 – 29,000 = ₹ 36,000; B/S Total ₹ 3,59,875]

2. On 1st July, 2015, the following balance appeared in the books of Ltd.

Particulars		₹
6% Preference Share Capital	... ...	1,00,000
(Share of ₹ 100 each redeemable on 30-9-2012, at a premium of ₹ 10 per share)		
Security Premium A/c	... ...	50,000
Profit and Loss A/c (Cr.)	... ...	1,50,000

To provide a part of cash necessary for the repayment of Redeemable Preference Shares (which were redeemed on the due date), the company made an issue of 7% Preference Shares of ₹ 100 each at ₹ 105 per share payable in full on application

Application for 800 of the new shares were received on 1st August, 2015.

Show the Journal entries (including cash transactions) necessary to record the above transactions in the books of the company.

[Ans.: CRR ₹ 20,000]

3. X Ltd. has the following Summary Balance Sheet as on 31-3-2015:

Liabilities	₹	Assets	₹
Issued, subscribed and fully paid up		Fixed Assets (Tangible)	22,00,000
10,000 Equity Share of ₹ 100 each	10,00,000	Bank	8,00,000
5,000 Preference Shares of ₹ 100 each	5,00,000		

Capital Reserve	1,00,000		
Security Premium Account	1,00,000		
General Reserve	2,00,000		
Profit and Loss Account	1,00,000		
Creditors	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 utilising the proceeds of the fresh issue are to be met by taking a Bank Loan.

Show Journal entries giving effect to the redemption and draw up the Balance Sheet of the company as it would appear immediately after the redemption.

[Ans. CRR ₹3,00,000; B/S Total ₹30,00,000]

4. Spotlight Ltd. has issued share capital of 60,000 8% Redeemable Cumulative Preference Shares of ₹ 20 each and 4,00,000 Equity Shares of ₹ 10 each. The Preference Shares are redeemable at a premium of 5% on 1st January 2015.

As at 31st Dec. 2014, the company showed the following position.

Liabilities	**₹**	**Assets**	**₹**
Issue Share Capital:		Plant and Machinery	25,00,000
60,000 8% Redeemable cumulative		Furniture and Fixtures	9,00,000
preference shares of ₹ 20 each,		Stock	15,00,000
fully paid up	12,00,000	Debtors	14,00,000
4,00,000 Equity Shares of ₹ 10 each,		Investments	3,50,000
fully paid	40,00,000	Balance at Bank	3,50,000
Profit and Loss A/c	7,00,000		
Sundry Creditors	11,00,000		
	70,00,000		**70,00,000**

In order to facilitate the redemption of preference shares it was decide:

(a) to sell the investments for ₹ 3,00,000.

(b) to finance part of the redemption from company funds subject to leaving of balance of Profit and Loss account of ₹ 2,00,000.

(c) to issue sufficient equity shares of ₹ 10 each at a premium of ₹ 2 per share to raise the balance of funds required.

The Preference Shares were redeemed on due date. New Equity Shares were fully subscribed. You are required to prepare:

(i) Journal entries to record the above transactions, and

(ii) A memorandum balance sheet as on completion of redemption.

[Ans.: CRR ₹12,00,000 – ₹7,50,000 = ₹4,50,000;
Fresh Issue ₹75,000 shares; B/S Total ₹65,90,000]

5. (Preference Dividend, O/s Calls): The undernoted balances were extracted form the ledger of Zee Ltd.:

No.	**Particulars**	**₹**
1	8% Redeemable Cumulative Preference Capital:	
	10,000 Shares of ₹ 100 each, fully called up	10,00,000

	Less: Calls unpaid at ₹ 25 per share	... ...	5,000
	Amount paid up	... ...	9,95,000
2	Security Premium Account	... ...	1,40,000
3	Development Rebate Reserve	... ...	5,00,000
4	General Reserve	... ...	3,40,000
5	Proposed Dividend since sanctioned on Cumulative Preference Shares		78,400

The directors redeemed the preference shares at a premium of 10% and for that purpose made a fresh issue of equity shares of ₹ 10 each at par for such amount as was necessary for the purpose after utilising the available sources to the maximum extent and satisfying the amount of preference dividend. ₹ 2,00,000 of the Development Rebate Reserve is free for distribution as dividend.

Give journal recording the above transactions. Company plans to forfeit the shares on which calls are unpaid.

[Ans.: Transferred to CRR ₹ 5,40,000; Preference Dividend paid ₹ 78,400]

II. Bonus

6. On Jan. 1, 2010 Shibpur Motor Ltd. issued 3,000 7% Redeemable Preference Shares of ₹ 10 each, all of which were taken up and fully paid. The Shares were issued on condition that the same at any time after March 31, 2014, could be redeemed at a premium of ₹ 4 per share.

On June 30, 2015 the company decided to redeem the shares. For the purpose, it issued 18,000 6% preference shares of ₹ 10 each at a premium of ₹ 1 per share on July, 15, 2013. The shares were subscribed and paid for by July 31, 2015. The 7% Redeemable Preference Shares were redeemed on the same date.

The company had balance of ₹ 28,000 in its Profit and Loss Account, On 1-9-2015, the company decided to issue 5,000 fully paid bonus shares of ₹ 10 each for allotment to equity shareholders in the ratio of one equity share for every four shares held. It had also a Reserve of ₹ 1,10,000.

Record the necessary journal entires in the books of the company.

[Ans. CRR ₹ 30,000 – ₹ 18,000 = ₹ 12,000]

7. Share Narayan Mills Ltd. has an authorised capital of ₹ 2,50,000 comprising 50,000 6% preference shares of ₹ 1 each and 2,00,000 ordinary Shares of ₹ 1 each.

The preference shares are redeemable on 1st January 2013 at ₹ 1.05 per share.

The summarised Balance Sheet of the company as on 31st December, 2015 was as follows:

Liabilities	**₹**	**Assets**	**₹**
Preference Capital	50,000	Fixed Assets	1,96,700
Ordinary Capital	1,00,000	Investments	14,000
Capital Reserve	9,500	Cash at Bank	28,000
General Reserve	20,000		
Profit and Loss A/c	42,500		
Creditors	16,700		
	2,38,700		**2,38,700**

The necessary resolutions were duly passed and the following transactions carried through

(i) In order to provide cash towards the redemption of the preference shares (a) all the investments were sold for ₹ 18,000 and (b) 20,000 Ordinary Shares of ₹ 1 each were issued to existing shareholders at ₹ 1.25 per share payable in full forthwith and duly paid.

(ii) The preference shares were duly redeemed.

(iii) A bonus issue of ordinary shares was made at the rate of one new shares for every ten then held out of the reserve created for redemption purpose.

You are required to pass the necessary journal entries to record these transaction (including those relating to cash) having regard to the Director's wish that minimum reduction should be made in revenue reserves. Also show the Balance Sheet of the company after completion of these transactions.

[Ans.: CRR ₹ 30,000; B/S Total ₹ 2,15,200]

8. The following is the summarised Balance Sheet of Dude Ltd. as on 31st March, 2015:

Liabilities	**₹**	**Assets**	**₹**
5,000 Equity Shares of ₹ 100 each	5,00,000	Fixed Assets	9,00,000
3,000 8% Preference Shares of ₹ 100		Investment	2,00,000
each, ₹ 80 per share called and paid up	2,40,000	Stock	1,00,000
4,000 9% Preference Shares of ₹ 100		Sundry Debtors	2,00,000
each fully paid	4,00,000	Cash at Bank	3,00,000
Capital Reserve	1,00,000		
General Reserve	1,00,000		
Security Premium	60,000		
Profit and Loss Account	2,00,000		
Sundry Creditors	1,00,000		
	17,00,000		**17,00,000**

On 1st April, 2012, the company redeemed the fully paid Preference Shares at a premium of 10%. In order to pay off the preference shareholders, the company sold the investments realising ₹ 2,10,000 and also issued 2,000 7% Preference Shares of ₹ 100 each which were fully subscribed in cash.

On the same date, the company issued fully paid bonus shares in the ratio of one for every two shares held.

Show the Journal entries and also prepare a Balance Sheet of the company after the completion of the transactions which took place on 1st April 2012.

[Ans. CRR ₹ 2,00,000; B/S Total ₹ 14,70,000]

9. The share capital of Caltex Ltd. consists of:

1,00,000 Equity Shares of ₹ 1 each fully paid, and

50,000 6% Preference Shares of ₹ 1 each fully paid, redeemable at a premium of 10%.

The company had a credit balance on Profit and Loss Account of ₹ 80,500 and a balance on General Reserve of ₹ 50,000.

The company resolved:

(a) To make a bonus issue of one share for every two held by the existing equity shareholders from General Reserve.

(b) To redeem the preference shares.

(c) To issue 30,000 equity shares of ₹ 1 each at a premium of 12½% in order to provide part of the funds necessary for the redemption of preference shares.

The resolutions were duly carried out.You are required to show the ledger accounts necessary to record the above transactions.

[Ans.: CRR ₹ 20,000]

10. The following is the Summary Balance Sheet of Mitra Ltd. as on 31st March, 2015:

Liabilities	**₹**	**Assets**	**₹**
5,000, 10% Preference Shares		Fixed Assets	13,70,000
of ₹ 100 each	5,00,000	Investment at Cost	
90,000 Equity Shares at ₹ 10 each	9,00,000	(Market Value – ₹ 2,80,000)	3,00,000
Securities Premium A/c	1,00,000	Stock	9,00,000
General Reserves	7,50,000	Debtors	1,00,000
Profit and Loss A/c	2,00,000	Cash at Bank	1,75,000
Creditors	4,00,000	Cash in Hand	5,000
	28,50,000		**28,50,000**

It was decided on 30th June 2015 to redeem the preference shares at a premium of 5%. To finance the redemption, all the investments were realised at market value and 10,000 equity shares were issued at ₹ 9 per share payable on application. The company also issued 10,000, 12% debentures of ₹ 100 each shares held on that date. It was also decided that only minimum reduction should be made in revenue reserves.

	Current Liabilities		
(a)	Other Current Liabilities	–	280.000
(b)	Short Term Provisions		90.000
	Total Equity and Liabilities		1395.200
	Assets		
	Non Current Assets		
(a)	Fixed Assets	–	700.000
	Current Assets		
(a)	Cash and Cash Equivalents	–	95.200
(b)	Other Current Assets		600.000
	Total Assets		1395.200

11. The Balance Sheet of Chandu Ltd. as on 31st December, 2015 was as follows:

Liabilities	**₹**	**Assets**	**₹**
6% Redeemable Preference		Fixed Assets	1,32,000
Shares of ₹ 100 each fully paid	50,000	Stock	22,000
Equity Shares of ₹ 10 each	90,000	Debtors	15,000
fully paid	1,40,000	Investments	36,000
Capital Reserve	5,000	Bank	20,000
Securities Premium	10,000		
General Reserve	20,000		
Profit & Loss A/c	30,000		
Creditors	20,000		–
	2,25,000		2,25,000

The preference shares were due for repayment on 31st January, 2016 & the company decided to redeem them at a premium of 5%. For the purpose of redemption, the Company made a fresh issue of 1,000 new equity shares of ₹ 10 each, at ₹ 12 per share, payable in full on 15th January, 2012. These shares were fully subscribed and all cash was collected. Then the company sold 75% of the investments for ₹ 26,000. The directors wish that only a minimum reduction should be made in the revenue reserves. He redemption was duly made on 31st January, 2016.

Write Journal Entries for above transactions and draw up the Balance Sheet after the redemption of preference shares was over.

[**Ans.** Capital Redemption Reserve: ₹ 40,000. Balance Sheet Total: ₹ 1,83,500]

12. The following is the Balance Sheet of Radhe Ltd., as on 31st March, 2014:

Liabilities	₹	Assets	₹
Authorised Capital		Fixed Assets	10,00,000
1,00,000 Equity Shares of		Current Assets	4,10,000
₹ 10 each	10,00,000	Cash at Bank	75,000
5,000 7% Preference Shares of			
₹ 100 each	5,00,000		
	15,00,000		
Paid up Capital:			
80,000 Equity Shares of ₹ 10 each			
₹ 7.50 paid up	6,00,000		
2,500 7% Preference Share			
of ₹ 100 each	2,50,000		
Securities Premium	10,000		
Capital Reserve	1,00,000		
General Reserve	3,50,000		
Profit & Loss A/c	1,25,000		
Sundry Creditors	50,000		
	14,85,000		14,85,000

It was decided to:

(a) redeem the 7% preference shares at a premium of 5%

(b) issue 1,000 6% debentures of ` 100 each

(c) convert the partly paid up equity shares into fully paid up without requiring the shareholders to pay for the same

(d) issue fully paid right shares of ₹ 10 each at a premium of ₹ 2 per share in the proportion are share for every four shares held for the purpose of redemption of preference shares.

You are required to pass necessary entries keeping in view the prudent utilisation of profits, to effect the aforesaid decision.

[Ans. Capital Redemption Reserve: ₹ 50,000. Right Shares: ₹ 20,000. Final call adjusted from General Reserve: ₹ 2,00,000]

13. Following Balance Sheet of X Ltd. is given on 30th June, 2014:

Liabilities		₹	Assets	₹
Share Capital:			Cash	65,000
Equity: 1,000 Shares			Other Assets	2,05,000
of ₹ 100 each		1,00,000		
9% Redeemable Preference:				
1,000 Shares of ₹ 100				
each fully called up	1,00,000			
Less: Calls in Arrears				
at ₹ 25/per share	500	99,500		
Securities Premium		14,000		
General Reserve		34,000		
Creditors		22,500		
		2,70,000		2,70,000

The directors forfeited the preference shares for non-payment of calls after giving notice to the shareholders and thereafter redeemed the preference shares at a premium of 10%.

For the purpose of redemption, the company made a fresh issue of equity shares of ₹ 100 each a at premimum of 5%, for such amount as was necessary, after taking into account the utilisation of available sources to the maximum extent. All the shares were subscribed and fully paid.

Write Journal Entries for above transactions and prepare Balance Sheet of the Company as it would appear after redemption.

[**Ans.** Capital Redemption Reserve: ₹ 34,000. Balance Sheet Total: ₹ 2,29,400. Preference Share be redeemed: 980. Fresh Issue: ₹ 640. Equity Shares of ₹ 100 each at 5% Premium. Bank Balance ₹ 24,400. Forfeited Shares: ₹ 1,500]

14. The following is the Balance Sheet of Back Ltd., as at 31st December, 2015:

Liabilities	**₹**	**Assets**	**₹**
Share Capital:		Sundry Assets	11,10,000
Authorised 10,000 Equity		Cash at Bank	5,85,000
Shares of ₹ 100 each	10,00,000		
5,000 6% Preference Shares			
of ₹ 100 each	5,00,000		
	15,00,000		
Issued & Subscribed:			
5,000 Equity Shares of			
₹ 100 each fully paid up	5,00,000		
5,000 6% Preference Shares			
of ₹ 100 each fully paid up	5,00,000		
Reserves & Surplus:			
Capital Reserves	1,15,000		
Securities Premium	5,000		
General Reserve	1,35,000		
Dividend Equalisation Reserve	75,000		
Profit & Loss Account	2,70,000		
Sundry Creditors	95,000		
	16,95,000		16,95,000

The company decided to redeem the preference shares at a premium of 5%. For the purpose of redemption the company resolved that:

(a) 1000 6% debentures of ₹ 100 each shall be issued at a premium of 5%.

(b) The profits of the company, shall be applied so far as may be possible, after leaving a balance of ₹ 50,000 in the Profit & Loss Account

(c) Equity shares of ₹ 100 each may also be issued, if necessary.

Give the relevant Journal Entries assuming that the redemption was duly carried out. Also prepare the Balance Sheet after such redemption.

[**Ans.** Capital Redemption Reserve: 4,30,000. Fresh Issue ₹ 700 shares. Capital Reserve: ₹ 15,000 Utilised for adjustment of premium on redemption. Bank Balance: ₹ 2,35,000. Balance Sheet ₹ 13,45,000]

15. Lighty Ltd. has issued share capital of 60,000 8% redeemable cumulative preference shares of ₹ 20 each and 4,00,000 Equity Shares of ₹ 10 each. The preference shares are redeemable at a premium of 5% on 1st January, 2015.

As at 31st December, 2014, the company's Balance Sheet showed the following position:

Liabilities	₹	Assets	₹
Issued Share Capital:		Plant & Machinery	25,00,000
60,000 8% Redeemable		Furniture & Fixtures	9,00,000
Cumulative Preference		Stock	15,00,000
Shares of ₹ 20 each,		Debtors	14,00,000
fully paid up	12,00,000	Investments	3,50,000
4,00,000 Equity Shares of		Balance at Bank	3,50,000
₹ 10 each, fully paid	40,00,000		
Profit & Loss A/c	7,00,000		
Sundry Creditors	11,00,000		
	70,00,000		70,00,000

In order to facilitate the redemption of preference shares, it was decided:

(a) to sell the investments for ₹ 3,00,000

(b) to finance part of the redemption from company funds subject to leaving of balance of Profit & Loss Account of ₹ 2,00,000.

(c) to issue sufficient equity shares of ₹ 10 each at a premium of ₹ 2 per share to raise the balance of funds required.

The preference shares were redeemed on due date. New equity shares were fully subscribed.

You are required to prepare:

(i) Journal entries to record the above transactions; and

(ii) A memorandum Balance Sheet as on completion of redemption.

[**Ans.** Capital Redemption Reserve: ₹ 4,50,000. Fresh Issue: 75,000 shares. Bank Balance ₹ 2,90,000]

16. The summarised Balance Sheet of Bharat Ltd., on 30t June 2015; was as follows:

Liabilities	₹	Assets	₹
10,000, 8% Redeemable		Fixed Assets	25,00,000
Preference Shares of		Current Assets	34,00,000
₹ 100 each	10,00,000		
3,00,000 Equity Shares of			
₹ 10 each	30,00,000		
Profit & Loss A/c	6,50,000		
Current Liabilities	12,50,000		
	59,00,000		59,00,000

The conditions of issue of the redeemable preference shares provided for their being redeemed on 15th July, 2015; at a premium of 5 per cent. The profits available being not sufficient to redeem the whole issue, the company issued 50,000 9 per cent preference shares of ₹ 10 each at par on 1st July 2015; which were duly taken up and paid for. The redeemable preference shares were redeemed on the due date.

On 1st September, 2015; the company decided to utilise the Capital Redemption Reserve Account to pay up an issue of ₹ 10 equity shares as bonus to the existing equity shareholders.

Show Journal Entries to record the above transactions.

[**Ans.** Capital Redemption Reserve: ₹ 5,00,000. Bonus Issue: 50,000 shares].