11. REDEMPTION OF PREFERENCE SHARES

NO. OF PROBLEMS IN 42E OF CA INTER: CLASSROOM - 07, ASSIGNMENT - 05

NO. OF PROBLEMS IN 41.5E OF CA INTER: CLASSROOM -05 ASSIGNMENT - 04

NO. OF PROBLEMS IN 42.5(2E) OF CA INTER: CLASSROOM - 5 ASSIGNMENT - 6

MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC AND CA INTER

MODEL NO.	N-11	M-12	N-12	M-13	N-13	M-14	N-14	M-15	N-15	M-16	N-16	M-17	N -17	M -18(O)	M -18(N)	N-18 (O)	N-18 (N)	M-19 (N)
1.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10	-	5	10
2.	-	-	-	-	-	-		-	-	-	-	-	-	-	-	-	-	-
3.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

SIGNIFICANCE OF EACH PROBLEM COVERED IN THIS MATERIAL

Problem No. in this material	Problem No. in new SM	Problem No. in old SM	Problem No. in old PM	RTP	MTP	Previous Exams	Remarks
CR 1	ILL - 4	-	-	-	M18(N)	-	-
CR 2	ILL - 7	-	-	-	-	M18(N)	-
CR 3	ILL - 6	-	-	N18(N)	-	-	-
CR 4	ILL - 5	-		-	-	-	
CR 5	ILL - 9	-	-	-	-	-	-
ASG 1	ILL - 1	-	-	-	-	-	-
ASG 2	ILL - 8	-	-	-	-	-	-
ASG 3	PQ - 1	-	-	-	-	-	-
ASG 4	-	-	-	N-19	-	-	
ASG 5	-	-	-	-	-	M-19	
ASG 6	PQ - 3	-	-	-	-	-	-

THEORY

INTRODUCTION:

- Redeemable Preference Shares are the shares which a company issues on the condition that it will repay the share price after a fixed period or even earlier at its discretion.
- The process of repayment to preference shareholders is called as Redemption of Preference Shares.
- The redemption date is the maturity date, which specifies when repayment takes place and is usually printed on the Preference Share Certificate.
- The maximum period for redemption is 20 Years from the date of issue.
- However a Company may issue preference shares redeemable after 20 years for such infrastructure projects as may be specified, under the Companies Act, 2013.

PURPOSE OF ISSUING REDEEMABLE PREFERENCE SHARES:

A company may issue redeemable preference shares because of the following:

1. It is a proper way of raising finance in a dull primary market.
2. When shares are not traded on the stock exchange, Potential investors; hesitant in putting money into shares that cannot easily be sold, may be encouraged to invest if the shares are redeemable by the company.
3. The preference shares may be redeemed when there is a surplus of capital and the surplus funds cannot be utilised in the business for profitable use.

PROVISIONS OF THE COMPANIES ACT RELATING TO REDEMPTION OF PREFERENCE SHARES (SEC.55): In India the issue & redemption of preference shares is governed by Sec.55 of The Companies Act, 2013. The provisions of the Act will be as follows:

a) Preference shares can be redeemed only if they are fully paid. Partly paid shares can't be redeemed. They must be made as fully paid before redemption.

b) Preference shares can be redeemed out of the following two sources only.

i) Divisible/ Distributable Profits, i.e., Profits available for distribution as dividend. Some of the examples of Divisible Profits are as under:

a) General Reserve
b) Reserve Fund
c) Dividend Equalisation Fund
d) Profit and Loss A/C

ii) Proceeds of fresh issue of shares (whether Equity or Preference) made for the purpose of redemption. Here the word "Proceeds" means the amount received on issue of fresh shares **Excluding Premium**. So the nominal / par / face value of fresh shares will only be considered as proceeds of fresh share.

c) The premium, if any, payable on redemption must be provided for out of the following two sources before such shares are redeemed:

i) Securities Premium A/C

ii) Profits (whether divisible or not).

Note:

1. *In case of companies which come under Sec.133 of the Companies Act, 2013, the premium, if any, payable on redemption shall be provided for out of the profits only. Securities premium cannot be used.*

2. *All the questions in this unit have been solved on the basis that the companies referred in the questions are governed by section 133 of the Companies Act, 2013 and comply with the Accounting Standards prescribed for them. Accordingly the balance in securities premium account has not been utilized for the purpose of premium payable to redemption of preference share.*

d) If the preference shares are redeemed out of divisible profits, a special reserve called as Capital Redemption Reserve (CRR) is to be created at a value which should be equal to the nominal value of the preference shares redeemed out of divisible profits.

CRR = Nominal value of the preference shares redeemed out of divisible profits.

Note:

i) *The CRR is to be utilized only for the issue of fully paid Bonus Shares*

ii) *The proceeds from fresh issue of debentures and from the sale of any fixed asset can not be utilized for the purpose of redemption.*

METHODS OF REDEMPTION:

A. REDEMPTION OF PREFERENCE SHARES BY FRESH ISSUE OF SHARES: One of the methods for redemption of preference shares is to use the proceeds of a fresh issue of shares. A company can issue new shares (equity or preference shares) and the proceeds from such new shares can be used for redemption of preference shares. Proceeds should not include securities premium.

For securities premium account, Section 52 of the Companies Act, 2013 provides that the securities premium account may be applied by the company;

a) Towards issue of un-issued shares of the company to be issued to members of the company as fully paid bonus securities

b) To write off preliminary expenses of the company

c) To write off the expenses of, or commission paid, or discount allowed on any of the securities or debentures of the company

d) To provide for premium on the redemption of redeemable preference shares or debentures of the company.

e) For the purchase of its own shares or other securities.

Note: If may be noted that certain class of Companies whose financial statements comply with the Accounting Standards as prescribed under Section 133 of the Companies Act, 2013, can't apply the securities premium account for the purposes (b) and (d) mentioned above.

Reasons for issue of New Equity Shares:

A company may prefer issue of new equity shares for the following reasons:

a) When the company has come to realize that the capital is needed permanently and it makes more sense to issue Equity Shares in place of Redeemable Preference Shares which carry a fixed rate of dividend.

b) When the balance of profit, which would otherwise be available for dividend, is insufficient.

c) When the liquidity position of the company is not good enough.

Advantages of redemption of preference shares by issue of fresh equity shares:

Following are the advantages of redemption of preference shares by the issue of fresh equity shares:

1. No cash outflow of money - now or later.
2. New equity shares may be valued at a premium.
3. Shareholders retain their equity interest.

Disadvantages of redemption of preference shares by issue of fresh equity shares:

The disadvantages are:

1. There will be dilution of future earnings;
2. Share-holding in the company is changed.

Accounting Entries

1.	When new shares are issued at par	
	Bank Account	Dr.
	To Share Capital Account	
2.	When new shares are issued at a premium	
	Bank Account	Dr.
	To Share Capital Account	
	To Securities Premium Account	
3.	When preference shares are redeemed at par	
	Redeemable Preference Share Capital Account	Dr.
	To Preference Shareholders Account	
4.	When preference shares are redeemed at a premium	
	Redeemable Preference Share Capital Account Dr.	
	Premium on Redemption of Preference Shares Account	Dr.
	To Preference Shareholders Account	
5.	When payment is made to preference shareholders	
	Preference Shareholders Account	Dr.
	To Bank Account	
6.	For adjustment of premium on redemption	
	Profit and Loss Account	Dr.
	To Premium on Redemption of Preference Shares Account	

CALCULATION OF MINIMUM NO. OF FRESH SHARES TO BE ISSUED:

i) When sufficient funds are available for redemption:

Nominal Value of the Preference Shares to be redeemed	XXX
Less: Divisible profits available for redemption	XXX
(After deduction of premium payable on redemption, if any)	____
Minimum fresh issue	XXX

$$\text{Minimum number of fresh shares to be issued} = \frac{\text{Minimum fresh Issue}}{\text{Proceeds of each fresh share}}$$

Note: *Proceeds of fresh share means the par value of share issued (Premium not to be included)*

ii) When sufficient funds are NOT available for redemption:

In this case divisible profits available can not be used for redemption. Proceeds of fresh issue of shares can only be used for redemption. For this purpose the additional amount required for redemption is to be calculated first by deducting the funds available with the Company from the amount payable for redemption including premium. Then the following formula is to be used.

$$\text{No. of Fresh Shares to be issued} = \frac{\text{Additional amount required for redemption}}{\text{Issue price of each fresh share}}$$

B. REDEMPTION OF PREFERENCE SHARES BY CAPITALISATION OF UNDISTRIBUTED PROFITS OR BY UTILISING DIVISIBLE PROFITS:

- Another method for redemption of preference shares, as per the Companies Act, is to use the distributable profits in place of issuing new shares.
- When shares are redeemed by utilizing distributable profit, an amount equal to the face value of shares redeemed is transferred to Capital Redemption Reserve A/C by debiting the distributable profit.

Advantages of redemption of preference shares by capitalisation of undistributed profits:

The advantages of redemption of preference shares by capitalisation of undistributed profits are:

1. No change in the percentage of equity share-holding of the company;
2. Surplus funds can be used.

Disadvantages of redemption of preference shares by capitalisation of undistributed profits:

The disadvantage of redemption of preference shares by capitalisation of undistributed profits is that there may be a reduction in liquidity.

Accounting Entries

1. When shares are redeemed at par

Redeemable Preference Share Capital Account	Dr.
To Preference Shareholders Account	

(Being the amount payable on redemption of preference shares transferred to Preference Shareholders Account)

2. When shares are redeemed at a premium

Redeemable Preference Share Capital Account	Dr.
Premium on Redemptions of Preference Shares Account	Dr.
To Preference Shareholders Account	

(Being the amount payable on redemption transferred to Preference Shareholders Account)

3. When payment is made to preference shareholders

Preference Shareholders Account	Dr.
To Bank Account	

(Being the payment to preference shareholders as per terms)

4. For adjustment of premium of redemption

Profit and Loss Account Dr.

To Premium on Redemption of Preference Shares Account

(Being the premium on redemption adjusted against Profit and Loss Account)

5. For transferring nominal amount of shares redeemed to Capital Redemption Reserve Account

General Reserve Account Dr.

Profit and Loss Account Dr.

To Capital Redemption Reserve Account

(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act).

C. <u>REDEMPTION OF PREFERENCE SHARES BY COMBINATION OF FRESH ISSUE AND CAPITALISATION OF UNDISTRIBUTED PROFITS</u>:

- A company can redeem the preference shares partly from the proceeds from new issue and partly out of divisible profits.
- In order to fill in the 'gap' between the face value of shares redeemed and the proceeds of new issue, a transfer to be made from distributable profits (Profit & Loss A/C, General Reserve and other Free Reserves) to Capital Redemption Reserve A/C.
- In this case the CRR and proceeds of fresh shares are calculated as follows:

a) Amount to be transferred to Capital Redemption Reserve.

	Rs.
Face value of preference shares to be redeemed	XXX
Less: Proceeds from fresh issue of shares	XXX
Divisible Profits utilized for redemption **(CRR)**	XXX

b) Proceeds to be collected from New Issue

	Rs.
Face value of preference shares to be redeemed	XXX
Less: Divisible Profits available for redemption	XXX
Proceeds of fresh shares issued	XXX

<u>REDEMPTION OF PARTLY CALLED - UP PREFERENCE SHARES</u>:

- One of the conditions of redemption is that <u>only fully paid up</u> preference shares can be redeemed by a company.
- <u>If the examination problem</u> states that it is decided to redeem preference shares which are <u>partly paid up</u> then it is <u>assumed that final call</u> on these shares is demanded and <u>received</u> before proceeding with the redemption of those shares.
- If information about <u>both fully paid and partly paid</u> preference shares is provided then <u>only fully paid shares are redeemed.</u>

<u>REDEMPTION OF FULLY CALLED BUT PARTLY PAID-UP PREFERENCE SHARES:</u> The problem of unpaid calls on fully called up shares may be studied under the following categories:

<u>When calls - in - arrears are received by the company:</u> If the amount of unpaid calls is received by the Company before redemption, the entry passed is as under:

Bank A/c Dr.

To Calls-in-Arrears A/c

After receipt of calls in arrears, the shares become fully paid up and, then, company can proceed with redemption in the normal course.

<u>In case of Forfeited Shares:</u> If, on getting a proper notice from the company, the shareholders fail to pay the unpaid calls, the Board of Directors may decide to forfeit the shares and cancel these shares instead of reissuing the forfeited shares because redemption of these share is due immediately or in near future. In this case, entry for forfeiture is passed as usual.

<u>Note:</u> *It is worth noting that to ensure replacement of capital out of proceeds of a fresh issue or out of divisible profits, total preference share capital (including the shares forfeited and cancelled) should be considered. However, while arranging funds for redemption, amount actually payable to shareholders is taken into consideration.*

<u>CALCULATION OF MINIMUM NO. OF FRESH SHARES TO BE ISSUED:</u>

I. When sufficient funds are available for redemption:

Nominal Value of the Preference Shares to be redeemed	XXX
Less: Divisible profits available for redemption	XXX
(After deduction of premium payable on redemption, if any)	
Minimum fresh issue	XXX

$$\text{Minimum number of fresh shares to be issued} = \frac{\text{Minimum fresh Issue}}{\text{Proceeds of each fresh share}}$$

<u>Note:</u> *Proceeds of fresh share means the par value of share issued (Premium not to be included)*

II. When sufficient funds are NOT available for redemption:

In this case divisible profits available can not be used for redemption. Proceeds of fresh issue of shares can only be used for redemption. For this purpose the additional amount required for redemption is to be calculated first by deducting the funds available with the Company from the amount payable for redemption including premium. Then the following formula is to be used.

$$\text{No. of Fresh Shares to be issued} = \frac{\text{Additional amount required for redemption}}{\text{Issue price of each fresh share}}$$

PROBLEMS FOR CLASSROOM DISCUSSION

<u>PROBLEM 1:</u> The Board of Directors of a Company decide to issue minimum number of equity shares of Rs.9 fully paid up each to redeem Rs.5,00,000 preference shares. The maximum amount of divisible profits available for redemption is Rs.3,00,000. Calculate the number of shares to be issued by the company to ensure that provisions of Section 55 are not violated. Also determine the number of shares if the company decides to issue shares in multiples of Rs. 50 only. ***(NEW SM)(MTP1 M18 (N)***

(ANS.: NO. OF SHARES TO BE ISSUED - 22,223 SHARES; IN MULTIPLES OF 50 - 22,250 SHARES)

<u>PROBLEM 2:</u> C limited had 3,000, 12% Redeemable Preference Shares of Rs.100 each, fully paid up. The company had to redeem these shares at a premium of 10%.

It was decided by the company to issue the following:

a) 25,000 Equity Shares of Rs.10 each at par,

b) 1,000, 14% Debentures of Rs.100 each.

The issue was fully subscribed and all amounts were received in full. The payment was duly made. The company had sufficient profits. Show Journal Entries in the books of the company.

(NEW SM) (M18 - 10M)(N)

Note:____

MODEL 2: REDEMPTION OF PREFERENCE SHARES BY CAPITALIZATION OF UNDISTRIBUTED PROFITS

PROBLEM 3: (PRINTED SOLUTION AVAILABLE) The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 20X1.Share capital: 40,000 Equity shares of Rs.10 each fully paid - Rs.4,00,000; 1,000 10% Redeemable preference shares of Rs.100 each fully paid - Rs.1,00,000.Reserve & Surplus: Capital reserve - Rs.50,000; Securities premium - Rs.50,000; General reserve -Rs.75,000; Profit and Loss Account - Rs.35,000

On 1st January 20X2, the Board of Directors decided to redeem the preference shares at par by utilisation of reserve. You are required to pass necessary journal entries including cash transactions in the books of the company. *(NEW SM, SIMILAR: RTP M18 (N), RTP N18(N))*

(SOLVE PROBLEM NO. 2 ,3&4 OF ASSIGNMENT PROBLEMS AS REWORK)

Note:____

MODEL 3: REDEMPTION OF PREFERENCE SHARES BY COMBINATION OF FRESH ISSUE AND CAPITALIZATION OF UNDISTRIBUTED PROFITS

PROBLEM 4: The Balance Sheet of X Ltd. as on 31st March, 20X3 is as follows:

Particulars	Rs.
EQUITY AND LIABILITIES	
1. Shareholders' funds	
Share capital	2,90,000
Reserves and Surplus	48,000
2. Current liabilities	
Trade Payables	56,500
Total	**3,94,500**
ASSETS	
1. Fixed Assets	
Tangible asset	3,45,000
Non-current investments	18,500
2. Current Assets	
Cash and cash equivalents (bank)	31,000
Total	**3,94,500**

The share capital of the company consists of Rs.50 each equity shares of Rs.2,25,000 and Rs.100 each Preference shares of Rs.65,000(issued on 1.4.20X1). Reserves and Surplus comprises Profit and Loss Account only.

In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided:

a) To sell all the investments for Rs.15,000.

b) To finance part of redemption from company funds, subject to, leaving a bank balance of Rs.12,000.

c) To issue minimum equity share of Rs.60 per share to raise the balance of funds required.

You are required to pass:

The necessary Journal Entries to record the above transactions and prepare the balance sheet after completion of the above transactions. *(NEW SM)*

(SOLVE PROBLEM NO. 5 OF ASSIGNMENT PROBLEMS AS REWORK)

Note:____

MODEL 4: REDEMPTION OF PARTLY CALLED UP PREFERENCE SHARES

PROBLEM 5: (PRINTED SOLUTION AVAILABLE) The Balance Sheet of XYZ as at 31st December, 20X1 inter alia includes the following:

50,000, 8% Preference Shares of Rs.100 each, Rs.70 paid up	35,00,000
1,00,000 Equity Shares of Rs.100 each fully paid up	1,00,00,000
Securities premium	5,00,000
Capital redemption reserve	20,00,000
General reserve	50,00,000

Under the terms of their issue, the preference shares are redeemable on 31st March, 20X2 at 5% premium. In order to finance the redemption, the company makes a rights issue of 50,000 equity shares of Rs.100 each at Rs.110 per share, Rs.20 being payable on application, Rs.35 (including premium) on allotment and the balance on 1st January, 20X3. The issue was fully subscribed and allotment made on 1st March, 20X2. The money due on allotment were received by 31st March, 20X2. The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act, 2013.

You are asked to pass the necessary Journal Entries and show the relevant extracts from the balance sheet as on 31st March, 20X2 with the corresponding figures as on 31st December, 20X1.

(NEW SM)

Note:____

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PRINTED SOLUTIONS TO SOME SELECTIVE PROBLEMS

PROBLEM NUMBERS TO WHICH SOLUTIONS ARE PROVIDED: 3, 5

PROBLEM NO: 3

Journal Entries in the books of ABC Limited

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
20X2				
Jan 1	10% Redeemable Preference Share Capital A/c Dr.		1,00,000	
	To Preference Shareholders A/c			1,00,000
	(Being the amount payable on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c Dr.		1,00,000	
	To Bank A/c			1,00,000
	(Being the amount paid on redemption of preference shares)			
	General Reserve A/c Dr.		75,000	
	Profit & Loss A/c Dr.		25,000	
	To Capital Redemption Reserve A/c			1,00,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

Note: Securities premium and capital reserve cannot be utilised for transfer to Capital Redemption Reserve.

PROBLEM NO: 5

Journal Entries

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
	8% Preference Share Final Call A/c Dr.		15,00,000	
	To 8% Preference Share Capital A/c			15,00,000
	(For final call made on preference shares @ Rs. 30 each to make them fully paid up)			

	Bank A/c Dr.		15,00,000	
	To 8% Preference Share Final Call A/c			15,00,000
	(For receipt of final call money on preference shares)			
	Bank A/c Dr.		10,00,000	
	To Equity Share Application A/c			10,00,000
	(For receipt of application money on 50,000 equity shares @ Rs. 20 per share)			
	Equity Share Application A/c Dr.		10,00,000	
	To Equity Share Capital A/c			10,00,000
	(For capitalisation of application money received)			
	Equity Share Allotment A/c Dr.		17,50,000	
	To Equity Share Capital A/c			12,50,000
	To Securities Premium A/c			5,00,000
	(For allotment money due on 50,000 equity shares @ Rs. 35 per share including a premium of Rs. 10 per share)			
	Bank A/c Dr.		17,50,000	
	To Equity Share Allotment A/c			17,50,000
	(For receipt of allotment money on equity shares)			
	8% Preference Share Capital A/c Dr.		50,00,000	
	Premium on Redemption of Preference Shares A/c Dr.		2,50,000	
	To Preference Shareholders A/c			52,50,000
	(For amount payable to preference shareholders on redemption at 5% premium)			
	General Reserve A/c Dr.		2,50,000	
	To Premium on Redemption A/c			2,50,000
	(For writing off premium on redemption of preference shares)			
	General Reserve A/c Dr.		27,50,000	
	To Capital Redemption Reserve A/c			27,50,000
	(For transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 50,00,000 - 10,00,000 - 12,50,000)			
	Preference Shareholders A/c Dr.		52,50,000	
	To Bank A/c			52,50,000
	(For amount paid to preference shareholders)			

Balance Sheet (extracts)

	Particulars	Notes No.	As at 31.3.20X2 (Rs.)	As at 31.12.20X1 (Rs.)
	EQUITY AND LIABILITIES			
1.	**Shareholders' funds**			
	a) Share capital	1	1,22,50,000	1,35,00,000
	b) Reserves and Surplus	2	77,50,000	75,00,000

Notes to accounts:

	Particulars		As at 31.3.20X2	As at 31.12.20X1
1.	**Share Capital**			
	Issued, Subscribed and Paid up:			
	1,00,000 Equity shares of Rs.100 each fully paid up		1,00,00,000	1,00,00,000
	50,000 Equity shares of Rs.100 each Rs.45 paid up		22,50,000	-
	50,000, 8% Preference shares of Rs.100 each, Rs.70 called up			35,00,000
			1,22,50,000	1,35,00,000
2.	**Reserves and Surplus**			
	Capital Redemption Reserve		47,50,000	20,00,000

	Securities Premium (5,00,000 + 5,00,000)		10,00,000	5,00,000
	General Reserve		20,00,000	50,00,000
			77,50,000	**75,00,000**

Note: Amount received (excluding premium) on fresh issue of shares till the date of redemption should be considered for calculation of proceeds of fresh issue of shares. Thus, proceeds of fresh issue of shares are Rs.22,50,000 (Rs.10,00,000 application money plus Rs. 12,50,000 received on allotment towards share capital).

ASSIGNMENT PROBLEMS

MODEL 1: REDEMPTION OF PREFERENCE SHARES BY FRESH ISSUE OF SHARES

PROBLEM 1: Hinduja Company Ltd. had 5,000, 8% Redeemable Preference Shares of Rs.100 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of Rs.10 each fully paid up at par. You are required to pass necessary Journal Entries including cash transactions in the books of the company. ***(NEW SM)***

MODEL 2: REDEMPTION OF PREFERENCE SHARES BY CAPITALIZATION OF UNDISTRIBUTED PROFITS

PROBLEM 2: The Capital Structure of a company consists of 20,000 equity shares of Rs.10 each fully paid up and 1,000, 8% Redeemable Preference Shares of Rs. 100 each fully paid up.

Undistributed reserve and surplus stood as: General Reserve Rs.80,000; Profit and Loss A/C Rs.20,000; Investment Allowance Reserve(out of which Rs.5,000 not free for distribution as dividend) Rs.10,000; Securities Premium Rs.2,000; Cash at bank amounted to Rs. 98,000.

Preference Shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilizing the undistributed reserve and surplus, subject to the conditions that a sum of Rs.20,000 shall be retained in general reserve and which should not be utilized.

Pass journal entries to give effect to the above arrangements. ***(NEW SM)***

PROBLEM 3: The books of B Ltd. showed the following balance on 31st December, 20X3: 30,000 Equity Shares of Rs.10 each fully paid; 18,000 12% Redeemable Preference Shares of Rs.10 each fully paid; 4,000 10% Redeemable Preference Shares of Rs.10 each, Rs.8 paid up (all shares issued on 1st April, 20X2).

Undistributed Reserve and Surplus stood as: Profit and Loss Account Rs.80,000; General Reserve Rs.1,20,000; Securities Premium Account Rs.15,000 and Capital Reserve Rs.21,000.

Preference shares are redeemed on 1st January, 20X1 at a premium of Rs.2 per share. The information about share holders of 100 shares of Rs.10 each fully paid are not known.

For redemption, 3,000 equity shares of Rs.10 each are issued at 10% premium. At the same time, a bonus issue of equity share was made at par, two shares being issued for every five held on that date out of the Capital Redemption Reserve Account.

Show the necessary Journal Entries to record the transactions. ***(NEW SM)***

PROBLEM 4: The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 20X1:

Share capital: 50,000 Equity shares of Rs.10 each fully paid – Rs.5,00,000; 2,000 10% Redeemable preference shares of Rs.100 each fully paid – Rs. 2,00,000.

Reserve & Surplus: Capital reserve – Rs.2,00,000; General reserve –Rs. 2,00,000; Profit and Loss Account – Rs.75,000.

On 1st January 20X2, the Board of Directors decided to redeem the preference shares at premium of 5% by utilization of reserves.

You are required to prepare necessary Journal Entries including cash transactions in the books of the company. ***(RTP-N19)***

PROBLEM 5: The Summarized Balance Sheet of Clean Ltd. as on 31st March, 2019 is as follows:

Particulars	(Rs.)
EQUITY AND LIABILITIES	
1. Shareholder's funds:	
(a) Share Capital	5,80,000
(b) Reserves and Surplus	96,000
2. **Current Liabilities**:	
Trade Payables	1,13,000
Total	7,89,000
ASSETS:	
1. **Non-Current Assets**	
(a) Property, Plant and Equipment Tangible Assets	6,90,000
(b) Non-current investments	37,000
2. **Current Assets**	
Cash and cash equivalents (Bank)	62,000
Total	7,89,000

The Share Capital of the company consists of Rs. 50 each Equity shares of Rs. 4,50,000 and Rs. 100 each 8% Redeemable Preference Shares of Rs. 1,30,000 (issued on 1.4.2017).
Reserves and Surplus comprises statement of profit and loss only.

In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided:

(a) To sell all the investments for Rs. 30,000.

(b) To finance part of redemption from company funds, subject to, leaving a Bank balance of Rs. 24,000.

(c) To issue minimum equity share of Rs. 50 each at a premium of Rs. 10 per share to raise the balance of funds required.

You are required to:

(1) Pass Journal Entries to record the above transactions.

(2) Prepare Balance Sheet after completion of the above transactions. ***(M19-10M)***

(Ans: Balance sheet Total: 7,14,000)

PROBLEM 6: The following is the summarized Balance Sheet of Trinity Ltd. as at 31.3.20X1:

Liabilities	Rs.	Assets	Rs.
Share Capital:		Fixed Assets	
Authorised		Gross Block	3,00,000
10,000 10% Redeemable Preference Shares of Rs. 10 each	1,00,000	**Less:** Depreciation	1,00,000
90,000 Equity Shares of Rs.10 each	9,00,000		2,00,000
Issued, Subscribed & Paid-up Capital	10,00,000	Investments	1,00,000
		Current Assets & Loans & Advances	
10,000 10% Redeemable Preference Shares of Rs. 10 each	1,00,000		
10,000 Equity Shares of Rs. 10 each	1,00,000	Inventory	45,000
(A)	2,00,000	Trade receivables	25,000
Reserves and Surplus:		Cash and Bank Balances	50,000
General Reserve	1,20,000		
Securities Premium	70,000		

Profit and Loss A/c	18,500		
(B)	2,08,500		
Current Liabilities and Provisions (C)	11,500		
Total (A + B + C)	**4,20,000**	**Total**	**4,20,000**

For the year ended 31.3.20X2, the company made a net profit of Rs.35,000 after providing Rs.20,000 depreciation.

The following additional information is available with regard to company's operation:

1. The preference dividend for the year ended 31.3.20X2 was paid.

2. Except cash and bank balances other current assets and current liabilities as on 31.3.20X2, was the same as on 31.3.20X1.

3. The company redeemed the preference shares at a premium of 10%.

4. The company issued bonus shares in the ratio of one share for every equity share held as on 31.3.20X2.

5. To meet the cash requirements of redemption, the company sold investments.

6. Investments were sold at 90% of cost on 31.3.20X2.

You are required to prepare necessary journal entries to record redemption and issue of bonus shares.

THE END