Redemption of Preference Share

Illustration 1

Vanities Ltd had an issue 1,000, 12% redeemable preference shares of Rs.100 each, repayable at a premium of 10%. These shares are to be redeemed now out of the accumulated reserves, which are more than the necessary sum required for redemption. Show the necessary entries in the books of the company, assuming that the premium on redemption of shares has to be written off against the company's Securities Premium Account.

Illustration 2

Sure and Fast Ltd. has part of its share capital in 12% redeemable preference shares of Rs.100 each, repayable at a premium of 5%. The shares have now became due for redemption. it is decided that the whole amount will be redeemed out of a fresh issue of 20,000 equity shares of Rs.10 each at Rs.11 each. The whole amount is received in cash and the 12% preference shares are redeemed. Show the necessary journal entries in the books of the company.

Illustration 3

The following is the balance sheet of Oscar India Ltd as on 31st March 2011:

Particulars	Note No.	Amount (Rs.)
I. **Equity and Liabilities**		
Shareholders' Funds		
Share Capital	1	5,48,000
Reserves and Surplus	2	1,65,000
Current Liabilities		
Trade Payable	3	1,27,000
Total		**8,40,000**
II. **Assets**		
Non-Current Assets		
Fixed Assets		6,00,000
Current Assets		
Investment		50,000
Inventories		1,10,000
Cash and Cash Equivalents		80,000
Total	4	
		8,400

Notes:	Rs.	Rs.
1. Share Capital		
Authorised Issued. subscribed and paid-up:		…..
30,000 Equity Shares of Rs.10 each fully paid up		3,00,000
2,500 Preference shares of Rs.100 each fully		
Called up	2,50,000	
Less- Final call on 100 Preference Shares @Rs.20		
per shares unpaid	2,000	2,48,000
		5,48,000
2. Reserves and Surplus		
Securities Premium		15,000
Surplus		1,50,000
		1,65,000
3. Trade Payable		
Trade Creditors		1,10,000
Outstanding Expenses		17,000
		1,27,000
4. **Cash and Cash Equivalent**		
Balance with Bank		80,000

On 30th June, 2012, the Board of Directors decided to redeem the preference shares at a premium of 10% and to sell the investments at its market price of Rs.40,000. They also decided to 755U sufficient number of equity shares of Rs.10 each at a premium of Rs. 1 per share, required after utilising the profit and loss account leaving a balance of Rs.50,000. Premium on redemption is required to be set off against securities premium account.

Repayments on redemption were made in full except to one shareholder holding 50 shares only due to s leaving India for good.

You are required to show the journal entries and the balance sheet of the company after redemption. Assumption made should be shown in the working.

Illustration 1:

The Balance Sheet of Producers Lid as at 31st March, 2013 is as follows

Particulars	**Note No.**	**Amount (Rs.)**
I. **Equity and Liabilities**		
Shareholders' Funds		
Share Capital	1	3,50,000
Reserves and Surplus	2	64,000
Current Liabilities		
Trade Payable	3	72,000
Short-term premium	4	39,500
Total		**5,26,000**
II. **Assets**		
Non-Current Assets		
Fixed Assets	5	2,80,000
Current Assets		
Short-term Investment		60,000
Inventories		1,30,000
Trade Receivables		50,550
Cash and Cash Equivalents	6	4,950
Total		**5,26,000**

Note:

1. Share Capital	Rs.	Rs.
Authorised Issued, subscribed and paid-up		…...
40,000 Equity Shares of Rs.10 sach fully paid-up		4,00,000
10,000 10 % Preference share of 100 each		1,00,000
		5,00,000
Issued, subscribed and paid-up 25,000 Equity		……….

Shares of RS.10 each, tully paid-up10,000 10 %	2,50,000
Preference share of Rs.100 each. Fully paid up	1,00,000
	3,50,000

2. Reserves and Surplus

Securities Premium	10,000
Surplus	54,000
	64,000

3. Trade Payable

Supplies of Goods	66,000
Outstanding Expenses	6,500
	72,500

4. Short-term Premium

Provision for Income Tax	18,0000
Staff Provision Fund	21,500
	39,500

5. Tangible Assets

Plant and Machinery	2,40,000
Staff Provision Fund	40,000
	2,80,000

6. Cash and Cash Equivalent

Balance with Bank	4,900
Cash on hand	50
	4,950

In order to redeem its preference shares, the company issued 5,000 equity shares of Rs.10 each at a premium of 10% and sold all of its investment for Rs.70,800. Preference shares were redeemed at a premium of 10%. Show the necessary journal entries in the books of the company and prepare the balance sheet of the company immediately after redemption of preference shares.

Illustration 5:

Kalpataru Construction Ltd.

Balance Sheet

As at 31st March ,2014

I. **Equity and Liabilities**		**Rs.**
1. Source of Funds		
(a.) Share Capital	**1**	17,22,500
(b.) Reserves and Surplus	**2**	6,50,00
2. Current Liabilities		
Other current liabilities Calls in Adv.		
(Final Call on the equity Shares)	3	2,500
	Total	**23,75,000**
II. Assets		
1. Non-Current Assets		
(a) Fixed Assets		
Fixed Assets		12,25,000
(b) Non-Current Asset Investment		2,00,000
2. **Current Asset**		
Cash and Cash Equivalents		9,50,000
	Total	**23,75,000**

Notes

1. Share Capital

Authorised Share Capital issued subscribed		
Called up And Paid up Share Capital		
1,00,000 Equity shares of Rs.10 each		
750 per share called up	7,50,000	
Less- Call unpaid	7,500	7,42,500
20,000 12% preference share of Rs.50		
each fully called up	10,00,000	
Less- Calls unpaid (Rs.10 per shares)	20,000	9,80,000
		17,22,500

2. Reserves and Surplus

Securities Premium	50,000
General Reserve	6,00,000
	6,50,000

3. Other Current Liabilities

Call in Advance (Final call on equity shares)	2,500

On 1st April 2014 the Board of Director decided that

(a.) The fully paid preference shares are to be redeemed at a premium of 5% in may 2014 and for that purpose 50,000 equity shares of Rs.10 each are to be issued at per in the month of April,2014.

(b.) The 1,000 equity shares owned by a an existing shareholder, who has failed to pay the allotment money and the 1st call money @2.50 each share are to be forfeited in the month of June, 2014.

(c.) The final call ff Rs.2.50 per share is to be made in the month of July, 2014

All the above are duly complied with according to the time of schedule. The amount due on the issue of fresh equity share and on final call are also duly received except from B who had failed to pay the 1st call money for his 1,000 shares holding, has again failed to pay the final call also. These shares of B have been forfeited, in the month of august 2014. On the total shares forfeited, 1,500 shares are sold to X in September, 2014 credited as fully paid for Rs.9 per shares, the whole of A's shares being included.

Show the necessary journal entries and prepare the balance sheet of the company as on 30th September 2014.