



Date: 9 March 2021

**VIRTUAL COACHING CLASSES
ORGANISED BY BOS, ICAI**

**INTERMEDIATE LEVEL
PAPER 1: ACCOUNTING**

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KEY TERMS

Redemption

Process of repaying an obligation,

at prearranged amounts & timings.

Redemption Date

Maturity date on which repayment takes place.

It is printed on the preference share certificate.

PURPOSE OF ISSUING REDEEMABLE PREFERENCE SHARES

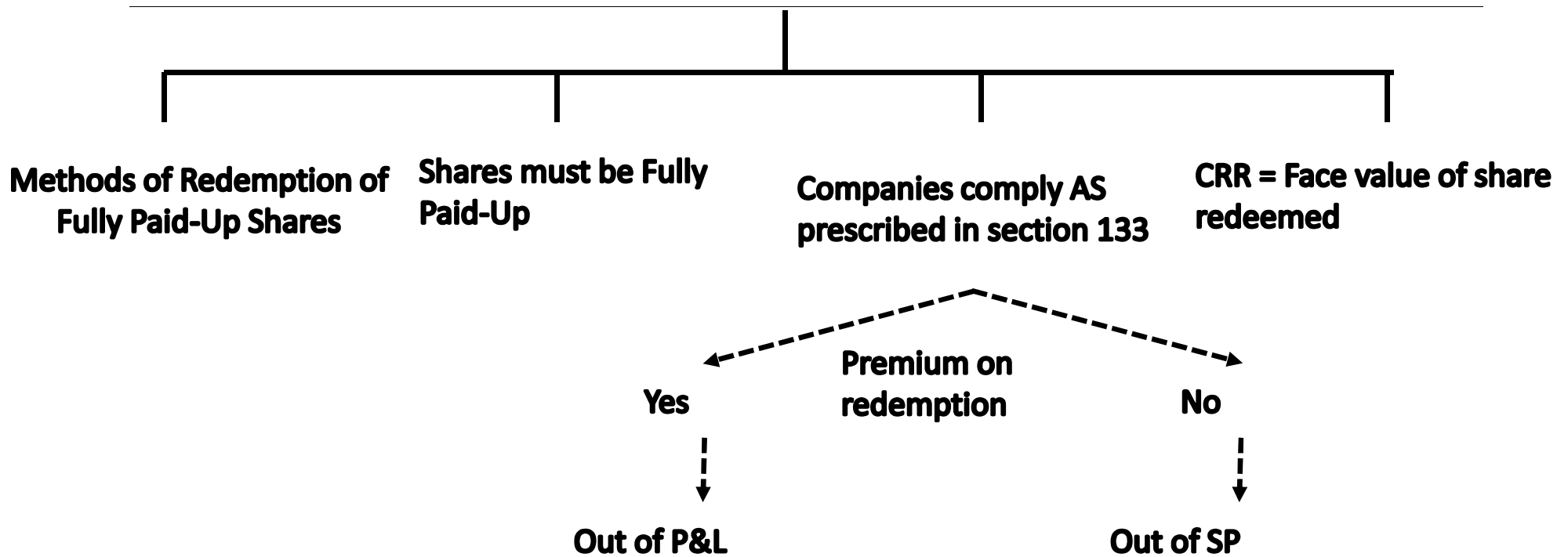
**Proper way of raising
finance in primary
market.**

**Difficulty in raising share
capital as shares are not
traded on stock
exchange.**

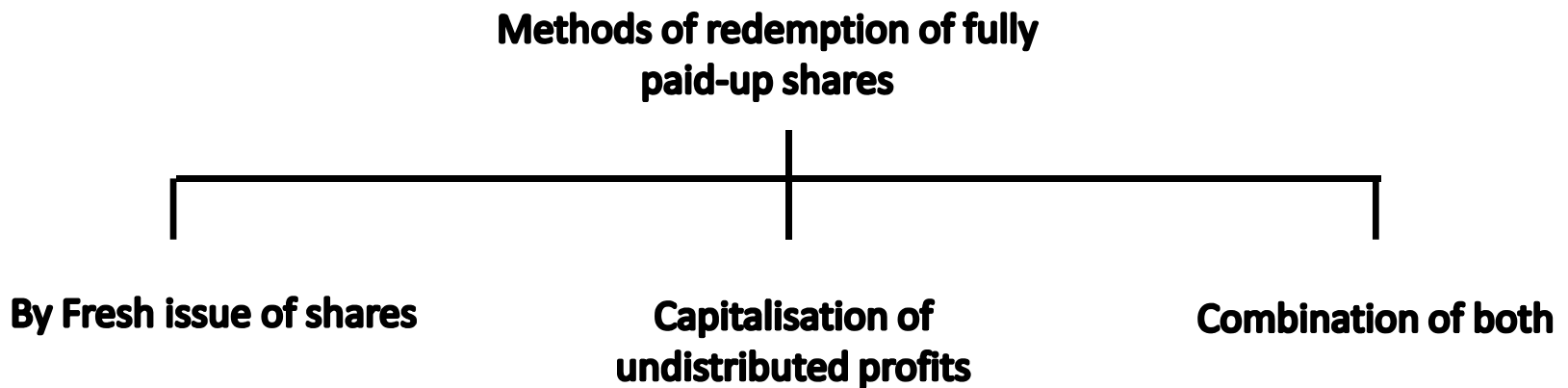
**PS may be redeemed
when there is surplus of
capital.**

**If no profit no
dividend**

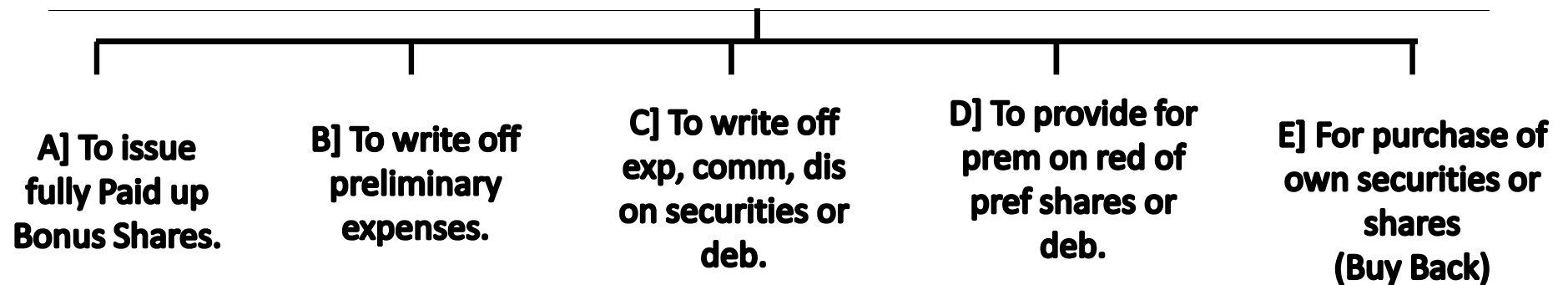
PURPOSE OF ISSUING REDEEMABLE PREFERENCE SHARES



PURPOSE OF ISSUING REDEEMABLE PREFERENCE SHARES



UTILISATION OF SECURITY PREMIUM (SECTION 52)



Companies comply AS prescribed in section 133

Yes



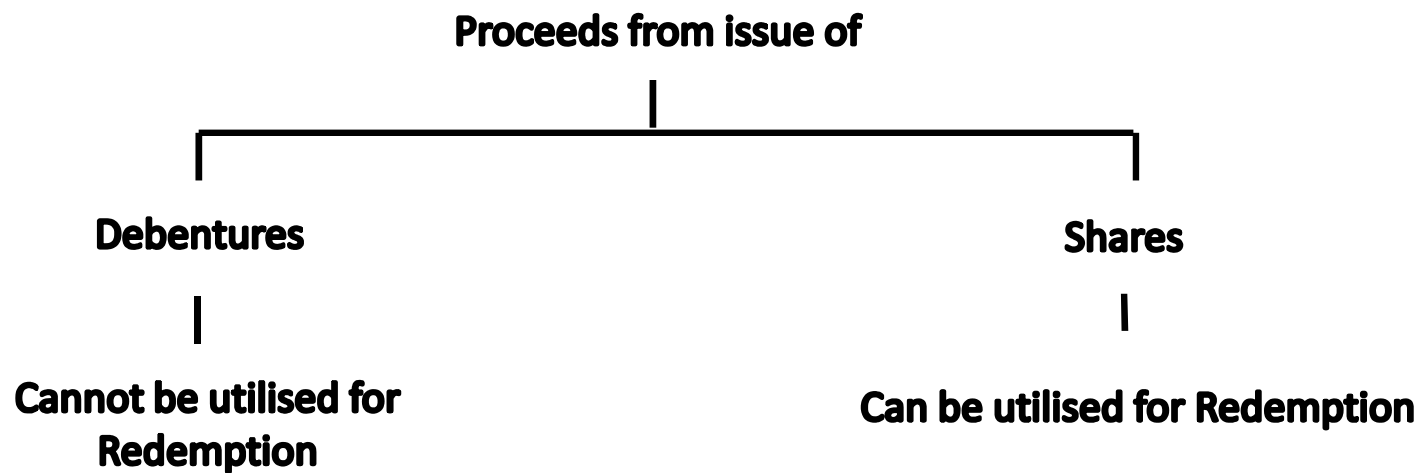
B & D are not applicable

No



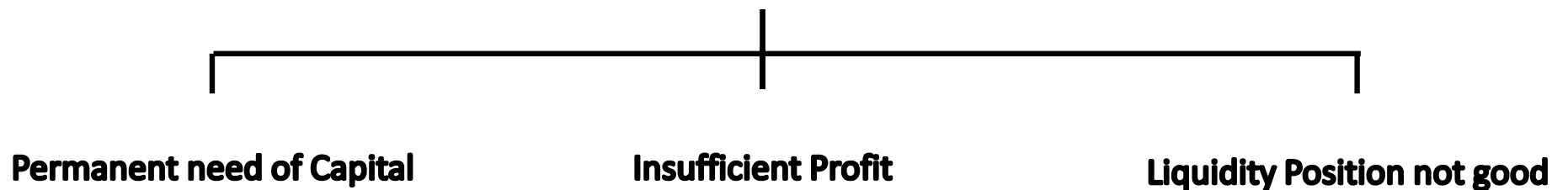
A to E are all applicable

A] REDEMPTION BY FRESH ISSUE OF SHARES



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Reasons for Issue of New Equity Shares



A] REDEMPTION BY FRESH ISSUE OF SHARES

Advantages

No cash outflow of money – Now or Later

New Equity Shares may be valued at premium

Shareholders retain their equity interest.

Disadvantages

Dilution of future earnings

Share-holding is changed

ACCOUNTING ENTRIES

Sr. No.	Particulars	Dr	Cr
1.	When new shares are issued at par Bank A/c Dr To Share Capital A/c		
2.	When new shares are issued at a premium Bank A/c Dr To Share Capital A/c To Securities Premium A/c		

ACCOUNTING ENTRIES

Sr. No.	Particulars	Dr	Cr
3.	<p>When preference shares are redeemed at par</p> <p>Redeemable Preference Share Capital A/c Dr</p> <p style="padding-left: 40px;">To Preference Shareholders A/c</p>		
4.	<p>When preference shares are redeemed at a premium</p> <p>Redeemable Preference Share Capital A/c Dr</p> <p>Premium on Redemption of Preference Shares A/c Dr</p> <p style="padding-left: 40px;">To Preference Shareholders A/c</p>		

ACCOUNTING ENTRIES

Sr. No.	Particulars	Dr	Cr
5.	When payment is made to preference shareholders Preference Shareholders A/c Dr To Bank A/c		
6.	For adjustment of premium on redemption Profit and Loss A/c Dr To Premium on Redemption of Preference Shares A/c		

A] REDEMPTION BY FRESH ISSUE OF SHARES

Calculation of Minimum Fresh Issue of Shares

Step I Calculate max amt of R&S available for redemption

Step II
$$\text{Minimum Proceeds of Fresh Issue} = \text{Nominal value of P.S. Capital} - \text{Max amt of R\&S available (Step I)}$$

Step III
$$\text{Minimum Number of Shares} = \frac{\text{Minimum proceeds (Step II)}}{\text{Issue Price of 1 share}}$$

Step IV If fractional shares consider next higher figure.
(In multiples of 10 / 50 as per question)

[B] REDEMPTION BY CAPITALISATION OF UNDISTRIBUTED PROFITS

Amount equal to face value of shares redeemed



is transferred to Capital Redemption Reserve Account (CRR)



by debiting the distributable profit

[B] REDEMPTION BY CAPITALISATION OF UNDISTRIBUTED PROFITS

Advantages

**No change in percentage of equity share-
holding**

Surplus funds can be used

Disadvantages

There may be a reduction in liquidity

ACCOUNTING ENTRIES

Sr. No.	Particulars	Dr	Cr
1.	<p>When shares are redeemed at par</p> <p>Redeemable Preference Share Capital A/c Dr</p> <p> To Preference Shareholders A/c</p>		
2.	<p>When shares are redeemed at a premium</p> <p>Redeemable Preference Share Capital A/c Dr</p> <p>Premium on Redemptions of Preference Shares A/c</p> <p>Dr</p> <p> To Preference Shareholders A/c</p>		

ACCOUNTING ENTRIES

Sr. No.	Particulars	Dr	Cr
3.	When payment is made to preference shareholders Preference Shareholders A/c Dr To Bank A/c		
4.	For adjustment of premium of redemption Profit and Loss A/c Dr To Premium on Redemption of Preference Shares A/c		

ACCOUNTING ENTRIES

Sr. No.	Particulars	Dr	Cr
5.	<p>For transferring nominal amount of shares redeemed to Capital Redemption Reserve A/c</p> <p>General Reserve A/c Dr</p> <p>Profit and Loss A/c Dr</p> <p> To Capital Redemption Reserve A/c</p>		

C] REDEMPTION BY COMBINATION OF (A) & (B)

Formula :

Sr.	Particulars	Rs.
i.	Amount to be Transferred to Capital Redemption Reserve	
	Face value of shares redeemed	XXX
	Less: Proceeds from new issue	XXX
		XXX

C] REDEMPTION BY COMBINATION OF (A) & (B)

Formula :

Sr.	Particulars	Rs.
ii.	Proceeds to be collected from New Issue	
	Face value of shares redeemed	XXX
	Less: Profits available for distribution as dividend	XXX
		XXX

REDEMPTION OF PARTLY CALLED-UP PREFERENCE SHARES

Only fully paid up preference shares can be redeemed.

If question states that partly called up pref shares are to be redeemed,

If information of both fully & partly paid pref shares is provided, then, only fully paid shares are redeemed.

Assume that final call on these shares is demanded & received before proceeding with redemption of these shares.



THANK YOU