

REDEMPTION OF PREFERENCE SHARES

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REDEMPTION OF PREFERENCE SHARES

UNDER SECTION 100 OF THE COMPANIES ACT, A COMPANY IS NOT ALLOWED TO RETURN TO ITS SHAREHOLDERS THE SHARE MONEY WITHOUT THE PERMISSION OF THE COURT

PROVISIONS U/S 80

- Shares must be fully paid up
- Shares can be redeemed either out of the proceeds of a fresh issue of shares or out of profits available for the dividend
- If redemption is done out of profits then a sum equal to the nominal amount of shares so redeemed must be transferred out of profits to a reserve called Capital Redemption Reserve account.

CONTD.

- CRR can be used for issuing fully paid bonus shares to the share-holders
- Redemption of preference shares should not be regarded as a reduction of authorized capital and must be shown in balance sheet

ACCOUNTING ENTRIES

- TO MAKE SHARES FULLY PAID UP

a) Preference share final call a/c Dr

 Preference share capital a/c Dr

 To Bank a/c Cr

b) Bank a/c

 To preference share final call a/c Dr

- Entry for total amount due to preference share holders

Redeemable pref. share capital a/c	Dr
Premium on redemption a/c	Dr
To Preference share holder a/c	Cr

- Entry for fresh issue of shares
Bank a/c Dr (with amt. actually received)
Discount on issue of shares a/c
To Equity Share Capital a/c
To Equity Share premium a/c

- Providing premium payable on redemption
Securities Premium a/c
or
Profit or Loss a/c
or
General Reserve a/c
To Premium on Redemption a/c

- If redemption is done out of profits
Profit or Loss a/c
or General Reserve a/c
or any other Reserve (available for dividend)
 To Capital Redemption Reserve a/c
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