



Sri Bhagavan Mahaveer Jain Evening College  
Advanced Corporate  
Accounting

Redemption of preference  
share capital

## Steps to follow

- 1) First check whether preference share which we are going to redeem (repayment) are fully paid or any balance left on it. If the balance unpaid pass the journal entries accordingly.. (see provisional J. entry 2)
- 2) Pass the 1<sup>st</sup> **compulsory journal entries** regarding preference share capital due entry
- 3) Before passing 2<sup>nd</sup> and 3<sup>rd</sup> **compulsory journal** entry check any fixed asset or investment sold (if yes pass the **provisional journal entry no 1** for it and transfer profit or loss to profit and loss account).
- 4) Then pass 2<sup>nd</sup> and 3<sup>rd</sup> **compulsory entry** ( depends on instruction given in the question either fresh issue or transfer divisible profit to crr a/c)
- 5) Pass the 4<sup>th</sup> **compulsory entry** regarding premium on redemption of preference share ( writeoff first through securities premium account if balance is not sufficient than use balance from divisible profit)
- 6) Check is their any bonus share issue if yes pass the **provisional journal entry no 4** ( to issue bonus share utilise CRR A/C)
- 7) LAST pass the 5<sup>th</sup> **compulsory entry payment entry** for the preference share holders (before passing this entry check the sufficient bank balance )
- 8) Working notes are compulsory for calculating new issue , calculation of divisible profit and bank balance at the end.

### Compulsory journal entries

particular(compulsory entries)	Amount (dr)	Amount(cr)
<u>1)When preference shares are redeem at par</u> Preference share capital A/c      dr To Preference shareholders A/c or <u>When preference shares are redeem at premium</u> Preference share capital A/c      dr premium on redemption of pref share capital a/c                      dr To Preferences shareholders A/c	Face value  <b>Face value</b> <b>Premium on redemption</b>	face value  total of both
<u>2)when fresh issue( at par) made for redemption</u> Bank A/C                                      dr To Share capital A/c or <u>When fresh issue ( at premium)</u> Bank A/C                                      dr To Share capital A/c To securities premium A/c	amount received  <b>amount received</b>	amount received  face value premium amount received
<u>3)When redemptions are made through divisible profits</u> Divisible profit A/C                      dr To Capital redemption Reserve A/c	To the extent of face value or remaining value	<b>To the extent of face value or remaining value</b>
<u>4) When premium on redemption write-off</u> Securities premium A/c To premium on redemption of preference share capital A/c	to the extent of premium paid on redemption	<b>To the extent of premium paid on redemption</b>
<u>5)when cash is paid to the preference shareholders</u> Preference shareholders a/c To cash or bank A/c	amount paid	Amount paid



<p>4) <u>Issue of bonus share</u>  <u>a) for bonus share issue</u>  CRR A/C                      DR  TO bonus to equity shareholders a/c</p> <p>b) <u>Transfer of bonus share</u>  _Bonus to equity shareholders a/c  to equity share capital a/c</p>		