

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 unpaided pass the journal entries accordingly..(see provisional J. entry 2)
- 2) Pass the 1st compulsory journal entries regarding preference share capital due entry
- 3) Before passing 2nd and 3rdcompulsory 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 2nd and 3rd compulsory entry (depends on instruction given in the question either fresh issue or transfer divisible profit to crr a/c)
- 5) Pass the 4th 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 5th 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)
1)When preference shares are redeem at par		
Prefrence share capital A/c dr		
To Preference shareholders A/c	Face value	
or		face value
When preference shares are redeem at premium		
Preference share capital A/c dr	Face value	
premium on redemption of pref	Premium on redemption	
share capital a/c dr		
To Preferences shareholders A/c		total of both
2)when fresh issue(at par) made for redemption		
Bank A/C dr	amount received	
To Share capital A/c		amount received
or		
When fresh issue (at premium)		
Bank A/C dr	amount received	
To Share capital A/c		face value
To securities premium A/c		premium amount received
_3)When redemptions are made through divisible		
profits	To the extent of face value or remaining	
Divisible profit A/C dr	value	To the extent of face value or remaining value
To Capital redemption Reserve A/c	Value	To the extent of face value of femaning value
4) When premium on redemption write-off	l	
Securities premium A/c	to the extent of premium paid on	
To premium on redemption of preference	redemption	To the extent of premium paid on redemption
share capital A/c		
5)when cash is paid to the preference shareholders		1
Preference shareholders a/c	amount paid	
To cash or bank A/c		Amount paid

PROVISIONAL ENTRIES (AS PER GIVEN IN THE QUESTION)

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1) In case of sold of an asset		
a) If any asset sold at book value	With the amount	
Bank a/c dr	received through sale.	
To related Asset		
Or .		Book value
b) If any asset sold at higher than book value	With the amount	Amount received
Bank a/c dr	received.	minus
To related Asset		book value.
" profit and loss a/c		
Or		
If any assets sold at lower than book value		
Bank a/c dr		
profit and loss a/c dr		
To concerned Asset		
(imp note if the asset is sold pass this following entry first before transferring divisible profit		
transfers to CRR A/C		
2) In case of unpaid call on preference share capital		
a) when preference shares are not fully paid	With the extent of	
Pref share final call a/c dr	unpaid balance.	
To pref share capital a/c		
10 prei silare capital a/c		
d) When cash is received on call money	To extent of amount	
Cash a/c dr	received.	
To call money recevied	Tecenteu.	
To can money received		
c) Entry for forfeiture of share		
Pref share capital A/c dr		
To forfeited shares a/c		
To pref share final call a/c		
d) When forfeiture shares re issued		
bank a/c dr		
forefeited shares a/c dr		
To Pref share capital A/c		
d)Transfer entry of forfeited shares A/c		
when there is a credit bal in forefeited		
forfeited shares A/c dr		
to capital reserve a/c		
Or		
when there is a debit bal in forefeited a/c		
goodwill a/c dr		
To forfeited share A/C		
To fortelect shale Aye		
2)When call in average received		
3)When call in arrears received		
Bank a/c dr		
To calls in arears a/c		

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