



Indian Accounting Association

Subject: Corporate Accounting

Topic

Redemption of Preference Shares

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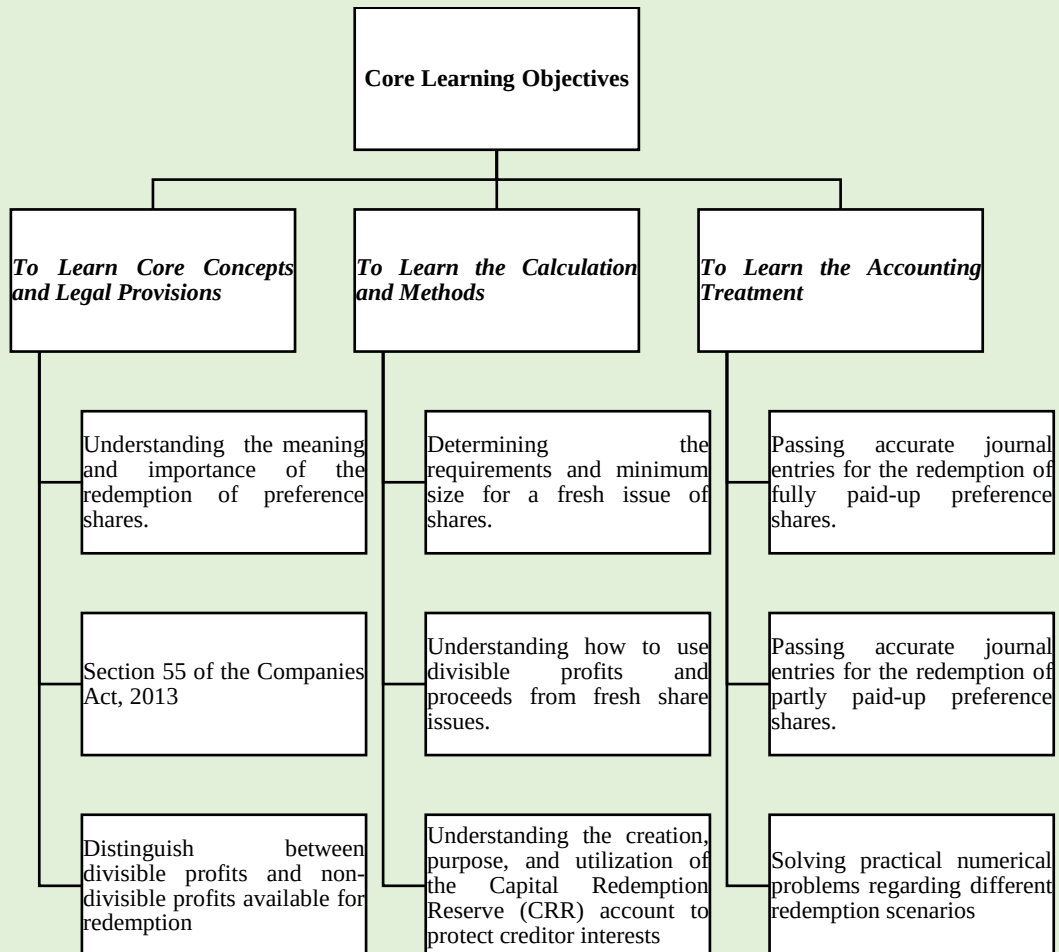
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Corporate Accounting

Redemption of Preference Shares

Learning Objectives of this Unit:



1. CONCEPTS OF REDEMPTION OF PREFERENCE SHARES

‘Redemption’ means the act of saving, recovering, or buying something back. Therefore, redemption of preference shares is the legal and financial process where a company repays the original capital amount to its redeemable preference shareholders.

2. LEGAL PROVISIONS RELATING TO THE REDEMPTION OF PREFERENCE SHARES

In India, the Section 55 of the Companies Act, 2013 provides the legal provisions relating to the redemption of the preference shares. Some key rules and regulations relating to the redemption of preference shares are stated as follows:

- I. Company cannot issue irredeemable preference shares.
- II. The preference shares of a company must be redeemed within a maximum period of **20 years**.
- III. A company engaged in the setting up and dealing with of infrastructural projects may issue preference shares for a period **exceeding 20 years** but **not exceeding 30 years**, subject to the redemption of a minimum **10%** of such preference shares per year from the **21st year onwards or earlier**, on proportionate basis, at the option of the preference shareholders.
- IV. All the issued preference shares must be **fully paid** before its redemption.
- V. Source of funds for the redemption must be arranged: either **(a)** out of the **fresh issue** of fully paid equity shares that are made specifically for the redemption purpose; or, **(b)** out of the **‘divisible profits’** of the company.
- VI. If the preference shares are redeemed out of the ‘divisible profits’, a sum equal to the **nominal value** of the preference shares redeemed must be transferred to **‘Capital Redemption Reserve’** account.
- VII. The premium payable on the redemption (if any) of preference shares is treated as a capital loss or expense. It must be provided for and written off using the company’s Security Premium Account or ‘divisible profits’ before the redemption is finalized.

3. KEY TERMS

I. Divisible Profits and Non-Divisible Profits

‘Divisible profits’ are the net income of the current year and reserved or undistributed profits from previous financial years that a company can legally distribute to shareholders as dividends. For example, Profit and Loss Account (Cr.), General Reserve, Dividend Equalization Reserve, Workmen's Compensation Fund, etc.

In contrast, ‘non-divisible profits’ are capital or unrealized gains that cannot be used for paying the dividends without meeting strict legal conditions. For example, Profit prior to

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incorporation, Profit on revaluation of fixed assets, Capital Redemption Reserve (CRR), Securities Premium Account, Capital Reserve, etc.

II. Capital Redemption Reserve

A Capital Redemption Reserve (CRR) is a statutory reserve created, when a company redeems preference shares or buys back shares using profits. Under Section 55 of the Companies Act, 2013, when a company redeems its preference shares a sum equal to the nominal value of the shares must be transferred to the Capital Redemption Reserve (CRR) out of its 'divisible profits'. Here, the legal principle of capital maintenance is followed. This principle ensures that a company protects its permanent capital base and safeguards the financial interests of its creditors.

4. ACCOUNTING TREATMENTS RELATING TO REDEMPTION OF PREFERENCE SHARES

The following necessary journal entries are to be made for redemption of preference shares:

In the Books of

Journal Entries

Date	Particulars	L.F.	Debit (Amount ₹)	Credit (Amount ₹)
	For making partly-paid preference shares fully paid: Redeemable Preference Share Final Call A/c ... Dr. To Redeemable Preference Share Capital A/c (Being final call money made due on preference shares)		Amount	Amount
	For receipt of preference share final call money: Bank A/c Dr. To Redeemable Preference Share Final Call A/c (Being final call money received)		Amount	Amount
	For fresh issue of shares (Equity/Preference): Bank A/c Dr. To Share Capital A/c (Equity/Preference) To Securities Premium A/c (if issued at premium) (Being fresh issue of shares made for redemption)		Total Received	Face Value Premium Amt
	For sale of investments or assets: Bank A/c (Actual realization) Dr. Loss on Sale of Investment A/c Dr. (if any) To Investment / Asset A/c To Profit & Loss A/c (if gain on sale) (Being investments/assets sold to arrange funds)		Sale- Proceeds Loss-Amount	Book Value Gain- Amount
	For transferring of unfinanced face value to CRR: General Reserve A/c Dr. Profit & Loss A/c Dr. To Capital Redemption Reserve (CRR) A/c		Nominal Value Nominal Value	Nominal Value

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	(Being nominal value of shares provided out of divisible profits)			
	For making preference shares due for redemption: Redeemable Preference Share Capital A/c Dr. Premium on Redemption of Preference Shares A/c ... Dr. (if any) To Preference Shareholders A/c (Being amount payable on redemption transferred to shareholders account)		Face Value Premium- Amt	Total Payable
	For writing off the premium on redemption: Securities Premium A/c / General Reserve A/c Dr. To Premium on Redemption of Preference Shares A/c (Being premium on redemption written off)		Premium- Amt	Premium- Amt
	For final payment made to preference shareholders: Preference Shareholders A/c Dr. To Bank A/c (Being cash paid to preference shareholders on redemption)		Total Paid	Total Paid

Illustration 1:

Nebula Infotech Ltd. has ₹5,00,000 worth of 10% Redeemable Preference Shares (5,000 shares of ₹100 each) that are fully paid up and due for redemption at a 5% premium.

To fund this redemption, the company decides to:

- Issue 2,000 fresh Equity Shares of ₹100 each at par.
- Utilize general reserves from the Reserve and Surplus for the purpose of redemption.
- The Balance sheet shows that:

General Reserve: ₹ 3,00,000

Security Premium: ₹ 20,000

Profit and Loss Account (Cr.): ₹ 75,000.

Pass the necessary journal entries.

Solution:

In the Books of Nebula Infotech Ltd.

Journal Entries

Date	Particulars	L.F.	Debit (Amount ₹)	Credit (Amount ₹)
	Bank A/c Dr. To Equity Share Capital A/c <i>(Being the receipt of application and allotment money for 2,000 fresh equity shares of ₹100 each issued at par)</i>		2,00,000	2,00,000
	10% Redeemable Preference Share Capital A/c Dr. Premium on Redemption of Preference Shares A/c Dr. To Preference Shareholders A/c <i>(Being the nominal capital and premium due on redemption transferred to the shareholders' account)</i>		5,00,000 25,000	5,25,000

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Security Premium A/c Dr. Profit and Loss A/c Dr. To Premium on Redemption of Preference Shares A/c <i>(Being the redemption premium of 5% written off against the available surplus balance)</i>		20,000 5,000	25,000
Profit and Loss A/c Dr. General Reserve A/c Dr. To Capital Redemption Reserve (CRR) A/c <i>(Being the creation of CRR using free reserves to cover the nominal value not funded by the fresh equity issue)</i>		70,000 2,30,000	3,00,000
Preference Shareholders A/c Dr. To Bank A/c <i>(Being the final cash payment made to the preference shareholders in full settlement)</i>		5,25,000	5,25,000

Working Notes:

- Nominal Value of Preference Shares to be Redeemed: $(5,000 \text{ shares} \times ₹100) = ₹5,00,000$
- Premium Payable on Redemption (5%): $(5\% \text{ of } ₹5,00,000) = ₹25,000$
- Nominal Value of Fresh Issue of Equity Shares: $(2,000 \text{ shares} \times ₹100) = ₹2,00,000$
- Amount Transferable to Capital Redemption Reserve (CRR): $(₹5,00,000 - ₹2,00,000) = ₹3,00,000$

Illustration: 2

Balance Sheet Extract of ABC Ltd. as at 31st March 2026

I. Equity and Liabilities	
1. Shareholders' Funds	
(a) Share Capital	
— 20,000 Equity Shares of ₹10 each, fully paid	2,00,000
— 1,000 10% Redeemable Preference Shares of ₹100 each, fully paid	1,00,000
(b) Reserves and Surplus	
— Securities Premium Account	20,000
— General Reserve	80,000
— Surplus (Profit & Loss Account credit balance)	50,000
2. Current Liabilities	
— Trade Payables (Creditors)	40,000
Total (I)	4,90,000
II. Assets	
1. Non-Current Assets (Tangible Assets)	3,00,000
2. Current Assets (Cash and Cash Equivalents / Bank)	1,90,000
Total (II)	4,90,000

Additional Information:

- The preference shares are to be redeemed on 1st April 2026 at a premium of 5%.
- To finance the redemption partly, the company issues 5,000 Equity Shares of ₹10 each at a 10% premium, fully subscribed and paid in cash.

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Pass the necessary journal entries and prepare the balance sheet after the redemption.

Solution:

In the books of ABC Ltd.

Journal Entries

Date	Particulars	L.F.	Debit (Amount ₹)	Credit (Amount ₹)
	Bank A/c To Equity Share Capital A/c To Securities Premium A/c <i>(Being 5,000 equity shares issued at a premium of 10% for cash)</i>		55,000	50,000 5,000
	10% Redeemable Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c <i>(Being the amount payable on redemption due to shareholders)</i>		1,00,000 5,000	1,05,000
	Securities Premium A/c To Premium on Redemption of Preference Shares A/c <i>(Being premium on redemption written off against securities premium)</i>		5,000	5,000
	General Reserve A/c To Capital Redemption Reserve A/c <i>(Being transfer of face value of unfinanced redemption to CRR)</i>		50,000	50,000
	Preference Shareholders A/c To Bank A/c <i>(Being final cash payment made on redemption)</i>		1,05,000	1,05,000

ABC Ltd.

Balance Sheet as at 1st April 2026 (Post-Redemption as per Schedule III)

Particulars	Note No.	Amount (₹)
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital	1	2,50,000
(b) Reserves and Surplus	2	1,50,000
2. Current Liabilities		
— Trade Payables (Creditors)		40,000
TOTAL		4,40,000
II. ASSETS		
1. Non-Current Assets		
— Tangible Assets		3,00,000
2. Current Assets		
— Cash and Cash Equivalents (Closing Bank Balance)		1,40,000
TOTAL		4,40,000

Notes to Accounts:

Particulars / Composition	Amount (₹)
Note 1: Share Capital	

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Equity Share Capital: 25,000 Shares of ₹10 each fully paid (20,000 + 5,000 new)	2,50,000
10% Redeemable Preference Share Capital (Fully redeemed)	Nil
Total Share Capital	2,50,000
Note 2: Reserves and Surplus	
Securities Premium Account (Opening ₹20000 + Fresh ₹5000 - Redemption Premium ₹5000)	20,000
Capital Redemption Reserve (Created from General Reserve)	50,000
General Reserve (Opening ₹80000 - Transferred to CRR ₹50000)	30,000
Surplus (Balance in Statement of Profit and Loss)	50,000
Total Reserves and Surplus	1,50,000

Working Notes:

a) Total Amount Payable on Redemption

Nominal value of 10% Redeemable Preference Shares: ₹1,00,000

Premium on redemption required (5% of ₹1,00,000): ₹5,000

Total liquidity required for shareholders: ₹1,00,000 + ₹5,000 = ₹1,05,000

b) Capital Financing & Fresh Issue Proceeds

Nominal face value from fresh equity issue (5,000 shares × ₹10): ₹50,000

Premium collected on fresh issue (5,000 shares × ₹1): ₹5,000

Total cash proceeds generated from issue: ₹55,000

c) Capital Redemption Reserve (CRR) Allocation

As per legal requirements, the unfinanced nominal face value must be transferred to the CRR out of divisible free profits (General Reserve).

CRR Transfer = Nominal Value of Preference Shares - Face Value of Fresh Issue

CRR Transfer = ₹1,00,000 - ₹50,000 = ₹50,000

d) Premium on Redemption Adjustment

Total premium on redemption to write off: ₹5,000

Utilized from existing Securities Premium Account balance (₹20,000 available).

e) Post-Transaction Cash and Bank Balances

Opening Bank Balance: ₹1,90,000

Add: Inflow from fresh equity issue: +₹55,000

Less: Outflow for redemption payoff: -₹1,05,000

Final Closing Bank Balance: ₹1,40,000

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Illustration 3:

Apex Industries Limited provides the following summary balance sheet extract as of 31st March 2026. The management has decided to streamline its capital structure by executing a redemption of preference shares.

Extract of Balance Sheet of Apex Industries Ltd. as at 31st March 2026

Particulars	Amount (₹)
I. EQUITY AND LIABILITIES	
1. Shareholders' Funds	
(a) Share Capital:	
— 50,000 Equity Shares of ₹10 each, fully paid	5,00,000
— 3,000 12% Redeemable Preference Shares of ₹100 each, ₹80 paid-up	2,40,000
(b) Reserves and Surplus:	
— Securities Premium Account	45,000
— General Reserve	2,10,000
— Profit & Loss Account (Cr.)	1,80,000
2. Non-Current Liabilities:	
— 10% Long-term Debentures	2,00,000
3. Current Liabilities:	
— Trade Payables	1,15,000
TOTAL	14,90,000
II. ASSETS	
1. Non-Current Assets:	
(a) Property, Plant and Equipment (Tangible Assets)	8,50,000
(b) Non-Current Investments (Book Value ₹1,20,000)	1,20,000
2. Current Assets:	
(a) Inventory	1,80,000
(b) Cash & Bank Balances	3,40,000
TOTAL	14,90,000

Additional Information:

- Preference Capital Final Call: The company made the final call of ₹20 per share on the 12% Redeemable Preference Shares on 1st April 2026. All shareholders paid the call money by 15th April 2026, except one shareholder holding 100 shares. These 100 shares were promptly forfeited on 20th April 2026 for non-payment of call money.

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- b) Redemption Premium: The remaining 2,900 valid preference shares were to be redeemed on 30th April 2026 at a premium of 10%.
- c) Fresh Capital Issue: To partly finance the redemption, the company issued 15,000 Equity Shares of ₹10 each at a premium of ₹2 per share on 22nd April 2026, which were fully subscribed and paid.
- d) Investment Liquidations: The company sold half of its non-current investments for cash at an enhanced market value of ₹75,000 on 25th April 2026.
- e) Statutory Reserve Accumulation: The legal minimum requirements regarding transfer to the Capital Redemption Reserve (CRR) are strictly adhered to, fully utilizing the available General Reserve first and then the Profit & Loss Account.
- f) Redemption Premium Write-off: The premium payable on redemption of preference shares is adjusted against the accumulated Securities Premium Account.
- g) Bonus Share Issuance: On 2nd May 2026, the company decided to capitalize its newly created Capital Redemption Reserve (CRR) by issuing fully paid-up Bonus Shares to the equity shareholders in the ratio of 1 new equity share for every 5 existing equity shares held.

Pass the necessary journal entries and prepare the balance sheet after the redemption.

Solution:

In the Books of Apex Industries Limited

Journal Entries

Date	Particulars	L · F	Debit (Amount ₹)	Credit (Amount ₹)
2026 Apr 1	Preference Share Final Call A/c To 12% Redeemable Preference Share Capital A/c (Being final call of ₹20 per share on 3,000 shares made due)		60,000	60,000
Apr 15	Bank A/c To Preference Share Final Call A/c (Being final call money on 2,900 shares received in full)		58,000	58,000
Apr 20	12% Redeemable Preference Share Capital A/c (100 × ₹100) To Calls-in-Arrears A/c (100 × ₹20) To Forfeited Shares A/c (100 × ₹80) (Being 100 preference shares forfeited due to non-payment of final call)		10,000	2,000 8,000
Apr 22	Bank A/c To Equity Share Capital A/c (15,000 × ₹10) To Securities Premium A/c (15,000 × ₹2) (Being fresh issue of 15,000 equity shares executed at 20% premium)		1,80,000	1,50,000 30,000
Apr 25	Bank A/c To Non-Current Investments A/c To Profit & Loss A/c (Profit on sale) (Being half of investments sold for ₹75,000, book value ₹60,000)		75,000	60,000 15,000

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Apr 30	12% Redeemable Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being amount due on redemption of 2,900 shares at 10% premium)		2,90,000 29,000	3,19,000
Apr 30	Securities Premium A/c To Premium on Redemption of Preference Shares A/c (Being premium on redemption written off entirely)		29,000	29,000
Apr 30	General Reserve A/c To Capital Redemption Reserve (CRR) A/c (Being legal transfer to CRR to cover unfinanced nominal preference value)		1,40,000	1,40,000
Apr 30	Preference Shareholders A/c To Bank A/c (Being final corporate check disbursed to shareholders)		3,19,000	3,19,000
May 2	Capital Redemption Reserve (CRR) A/c To Bonus to Shareholders A/c (Being utilization of CRR to declare 1:5 fully paid bonus issue)		1,30,000	1,30,000
May 2	Bonus to Shareholders A/c To Equity Share Capital A/c (Being capitalization finalized through issue of 13,000 equity shares)		1,30,000	1,30,000

Statement of Balance Sheet (after Redemption) as on 2nd may, 2026

Particulars	Note No.	Amount (₹)
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital	1	7,88,000
(b) Reserves and Surplus	2	3,21,000
2. Non-Current Liabilities		
(a) Long-term Borrowings (10% Debentures)		2,00,000
3. Current Liabilities		
(a) Trade Payables		1,15,000
TOTAL		14,24,000
II. ASSETS		
1. Non-Current Assets		
(a) Property, Plant and Equipment		8,50,000
(b) Non-Current Investments		60,000
2. Current Assets		
(a) Inventories		1,80,000
(b) Cash and Cash Equivalents	3	3,34,000
TOTAL		14,24,000

Notes to Accounts:

Particulars	Amount (₹)
Note 1: Share Capital	
Authorised, Issued, Subscribed & Paid up:	
78,000 Equity Shares of ₹10 each, fully paid	7,80,000
(Of the above, 13,000 Equity Shares were issued as fully paid bonus shares out of CRR)	
Add: Forfeited Shares Account balance (Amount collected on 100 shares forfeited)	8,000

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Total Share Capital Balance	7,88,000
Note 2: Reserves and Surplus	
Capital Redemption Reserve (CRR):	
Opening Balance: ₹0 Transferred from General Reserve: +₹1,40,000	
Less: Utilised for Bonus Capitalisation: -₹1,30,000	
Closing CRR Balance	14,000
Securities Premium Account:	
Opening Balance: ₹45,000 Add: Premium on Fresh Issue: +₹30,000	
Less: Premium on Redemption written off: -₹29,000	
Closing Securities Premium Balance	46,000
General Reserve:	
Opening Balance: ₹2,10,000 Less: Transferred to CRR: -₹1,40,000	
Closing General Reserve Balance	70,000
Surplus (Profit & Loss Account Balance):	
Opening Balance: ₹1,80,000 Add: Net Profit on Investment Liquidation: +₹15,000	
Closing Profit & Loss Balance	1,95,000
Total Reserves and Surplus Balance	3,21,000
Note 3: Cash and Cash Equivalents	
Cash at Bank (Refer to Step 6 calculation formula block)	3,34,000
Total Cash and Cash Equivalents Balance	3,34,000

Working Notes:

a) Preference Share Final Call & Forfeiture Analysis

Final call money due: 3,000 shares × ₹20 = ₹60,000.

Amount received: 2,900 shares × ₹20 = ₹58,000. Call-in-arrears on 100 shares = ₹2,000. Forfeiture Journal Treatment: Cancel 100 shares face value (100 × ₹100 = ₹10,000) by debiting Preference Share Capital. Credit Forfeited Shares A/c with amount already collected (100 × ₹80 = ₹8,000) and credit Calls-in-Arrears with ₹2,000. Only the 2,900 fully paid shares are eligible for statutory redemption.

b) Valuation of Legal CRR Transfer Requirement

According to Section 55 of the Companies Act 2013, Capital Redemption Reserve must equal Nominal Value of shares redeemed minus Nominal Value of Fresh Equity Proceeds. CRR Transfer = Nominal Value (₹290,000) - Fresh Equity Face Value (₹150,000) = **₹140,000**. Sourcing for CRR: Completely exhaust General Reserve (₹2,10,000 available, utilize ₹1,40,000). Remaining General Reserve balance = ₹70,000.

c) Accounting for Investment Sale and Profits

Book value of half investments = ₹1,20,000 / 2 = ₹60,000. Sold for ₹75,000.

Profit realized = ₹75,000 - ₹60,000 = ₹15,000. This profit scales up the Profit & Loss Balance: New Balance = ₹1,80,000 (Opening) + ₹15,000 (Profit) = ₹1,95,000. Remaining Book Value of Investments = ₹60,000.

d) Premium on Redemption & Securities Premium Tracker

Total Premium needed for Redemption = 10% of ₹2,90,000 = ₹29,000. Opening Securities Premium = ₹45,000. Add premium from fresh issue = ₹30,000. Total Available =

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₹75,000.

Net Securities Premium Balance post-redemption write-off = ₹75,000 - ₹29,000 = ₹46,000.

e) Corporate Bonus Issuance Calculation

Total existing equity shares before bonus: 50,000 (Opening) + 15,000 (Fresh Issue) = 65,000 Equity Shares.

Bonus shares to be issued = 65,000 shares / 5 = 13,000 new shares. Total Nominal Value = 13,000 × ₹10 = ₹1,30,000.

As per statutory guidelines, Capital Redemption Reserve (₹1,40,000) is utilized to fund this capitalization. Remaining CRR Balance = ₹14,000.

f) Cash and Bank Ledger Balance Verification

Opening Cash & Bank Balance: ₹3,40,000

Add: Receipt from Preference Share Final Call: +₹58,000

Add: Proceeds from Fresh Equity Issue (15,000 shares × ₹12): +₹1,80,000

Add: Proceeds from Liquidation of Investments: +₹75,000

Less: Disbursal to Preference Shareholders (Nominal ₹2,90,000 + Premium ₹29,000): -₹3,19,000

Final Net Closing Bank Balance = 3,40,000 + 58,000 + 1,80,000 + 75,000 - 3,19,000 = **₹3,34,000.**

Illustration 4:

The Balance Sheet of Aura Industrial Solutions Ltd. as of March 31, 2026, prepared under Schedule III of the Indian Companies Act, 2013, is given below:

Particulars	Note No.	Amount (₹)
I. EQUITY AND LIABILITIES		
(1) Shareholder's Funds		
(a) Share Capital	1	37,00,000
(b) Reserves and Surplus	2	18,30,000
(2) Non-Current Liabilities		
(a) Long-term borrowings (12% Debentures)		10,00,000
(3) Current Liabilities		
(a) Trade Payables		4,20,000
(b) Short-term Provisions (Provision for Tax)		1,50,000
Total Equity and Liabilities		71,00,000
II. ASSETS		
(1) Non-Current Assets		
(a) Property, Plant and Equipment	3	42,00,000

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(b) Non-Current Investments	4	8,50,000
(2) Current Assets		
(a) Inventories		9,10,000
(b) Trade Receivables		6,40,000
(c) Cash and Cash Equivalents		5,00,000
Total Assets		71,00,000

Notes to Accounts:

Note No.	Particulars	Amount (₹)
1	Share Capital	
	2,00,000 Equity Shares of ₹10 each, fully paid up	20,00,000
	1,00,000 Equity Shares of ₹10 each, ₹7 paid up	7,00,000
	10,00, 12% Redeemable Preference Shares of ₹100 each, fully paid up	10,00,000
	Total Share Capital	37,00,000
2	Reserves and Surplus	
	Capital Reserve (realized in cash)	2,50,000
	Securities Premium Account	1,80,000
	General Reserve	6,00,000
	Surplus (Profit & Loss Account)	8,00,000
	Total Reserves and Surplus	18,30,000
3	Property, Plant and Equipment	
	Plant and Machinery (Cost)	55,00,000
	Less: Accumulated Depreciation	(13,00,000)
	Net Property, Plant and Equipment	42,00,000
4	Non-Current Investments	
	Investments in Equity Instruments (Market Value ₹9,50,000)	8,50,000

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Additional Information & Terms of Redemption:

- a) The company decided to redeem its 12% Redeemable Preference Shares on April 1, 2026, at a premium of 15%.
- b) To prepare for the redemption, the Board made the final call of ₹3 per share on the partly paid equity shares. The money was fully collected by April 1, 2026.
- c) Non-current investments with a book value of ₹5,00,000 were sold for ₹6,20,000.
- d) The company is required to maintain a minimum cash balance of ₹2,00,000 at all times.
- e) To bridge any cash deficit for the redemption, the company decided to issue the minimum required number of Equity Shares of ₹10 each at par. The issue was fully subscribed.
- f) The company complies under the Companies Act, 2013 regarding premium formatting.
- g) Immediately after redemption, the company decided to issue fully paid Bonus Shares in the ratio of 1:5 to the eligible fully paid equity shareholders. The company opted to maximize the utilization of the newly created Capital Redemption Reserve (CRR) first before tapping other reserves.

Pass the necessary journal entries and prepare the balance sheet after the redemption.

Solution:

In the Books of Aura Industrial Solutions Ltd

Journal Entries

Date	Particulars	L.F.	Debit (Amount ₹)	Credit (Amount ₹)
	Equity Share Final Call A/c ...Dr. To Equity Share Capital A/c (Being final call of ₹3 made on 1,00,000 shares)		3,00,000	3,00,000
	Bank A/c ...Dr. To Equity Share Final Call A/c (Being final call money received)		3,00,000	3,00,000
	Bank A/c ...Dr. To Non-Current Investments A/c To Profit & Loss A/c (Being investments sold at profit)		6,20,000	5,00,000 1,20,000
	12% Redeemable Preference Share Capital A/c ...Dr. Premium on Redemption of Pref. Shares A/c ...Dr. To Preference Shareholders A/c (Being amount due on redemption)		10,00,000 1,50,000	11,50,000
	Preference Shareholders A/c ...Dr. To Bank A/c (Being payment made to shareholders)		11,50,000	11,50,000
	Profit & Loss A/c ...Dr. To Premium on Redemption of Pref. Shares A/c (Being premium written off as per AS 133)		1,50,000	1,50,000
	Profit & Loss A/c ...Dr. General Reserve A/c ...Dr. To Capital Redemption Reserve (CRR) A/c (Being transfer to CRR)		7,70,000 2,30,000	10,00,000

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	Capital Redemption Reserve (CRR) A/c ...Dr. To Bonus to Shareholders A/c (Being capitalization for bonus)		6,00,000	6,00,000
	Bonus to Shareholders A/c ...Dr. To Equity Share Capital A/c (Being allotment of bonus shares)		6,00,000	6,00,000

Balance Sheet as at 1st April 2026 (Post-Redemption as per Schedule III)

	Note No.	Amount (₹)
I. EQUITY AND LIABILITIES		
(1) Shareholder's Funds		
(a) Share Capital	1	36,00,000
(b) Reserves and Surplus	2	12,00,000
(2) Non-Current Liabilities		
(a) Long-term borrowings (12% Debentures)		10,00,000
(3) Current Liabilities		
(a) Trade Payables		4,20,000
(b) Short-term Provisions (Provision for Tax)		1,50,000
Total Equity and Liabilities		63,70,000
II. ASSETS		
(1) Non-Current Assets		
(a) Property, Plant and Equipment	3	42,00,000
(b) Non-Current Investments	4	3,50,000
(2) Current Assets		
(a) Inventories		9,10,000
(b) Trade Receivables		6,40,000
(c) Cash and Cash Equivalents	5	2,70,000
Total Assets		63,70,000

Post-Redemption Notes to Accounts:

Note No.	Particulars	Amount (₹)
1	Share Capital	
	3,60,000 Equity Shares of ₹10 each, fully paid up (Includes 60,000 Bonus Shares)	36,00,000
	Total Share Capital	36,00,000
2	Reserves and Surplus	
	Capital Reserve	2,50,000
	Securities Premium Account	1,80,000
	Capital Redemption Reserve (CRR)	4,00,000
	General Reserve	3,70,000
	Surplus (Profit & Loss Account)	0
	Total Reserves and Surplus	12,00,000
3	Property, Plant and Equipment	
	Net Property, Plant and Equipment	42,00,000
4	Non-Current Investments	
	Investments (Cost)	3,50,000
5	Cash and Cash Equivalents	
	Cash and Bank Balance	2,70,000

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Working Notes:

a) Final Call Receipt

Money received from final call on equity shares = 1,00,000 shares × ₹3 = ₹3,00,000.
Total fully paid equity shares now = 2,00,000 + 1,00,000 = 3,00,000 shares (Nominal Value = ₹30,00,000).

b) Total Redemption Outflow

Nominal Value of 12% Preference Shares = ₹10,00,000
Premium on Redemption = 15% of ₹10,00,000 = ₹1,50,000. Total Cash Payable to Preference Shareholders = ₹11,50,000

c) Minimum Fresh Issue of Equity Shares

Cash Inflow / Outflow Component	Amount (₹)
Opening Cash and Cash Equivalents	5,00,000
(+) Cash from Final Call on Equity Shares	3,00,000
(+) Proceeds from Sale of Investments	6,20,000
Total Cash Available Before Fresh Issue	14,20,000
(-) Less: Total Redemption Payment Due	(11,50,000)
(-) Less: Minimum Cash Balance Required	(2,00,000)
Surplus Cash Position	+ 70,000

Analysis: Since total available cash exceeds required cash, fresh issue is NIL. Final Closing Cash Balance is ₹2,70,000.

d) CRR Creation & Premium Allocation

Under Section 55, since the fresh issue face value is Nil, the entire nominal value of preference shares redeemed must be transferred to CRR. CRR to be created = ₹10,00,000. Premium on Redemption Adjustment: Premium of ₹1,50,000 must be written off entirely against free divisible profits (P&L Account).

Net P&L available for CRR = ₹8,00,000 + ₹1,20,000 (profit on sale) - ₹1,50,000 (premium) = ₹7,70,000.

The remaining CRR balance (₹10,00,000 - ₹7,70,000 = ₹2,30,000) will be taken from General Reserve.

e) Bonus Share Issue

Total fully paid equity shares eligible = 3,00,000 shares. Bonus ratio = 1:5 i.e. 60,000 shares. Value of Bonus Issue = 60,000 shares × ₹10 = ₹6,00,000. Fully utilized from the newly created CRR (₹10,00,000). Remaining CRR balance = ₹4,00,000.

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Practical Problems

Question 1: Beta Ltd. had the following balances in its Balance Sheet as of March 31, 2026:

Share Capital:	Amount (₹)
10,000, 8% Redeemable Preference Shares of ₹100 each, ₹80 paid up	₹8,00,000
50,000, Equity Shares of ₹10 each, fully paid up	₹5,00,000
Reserves & Surplus:	
General Reserve	₹3,50,000
Profit & Loss Account (Cr.)	₹2,20,000
Securities Premium Account	₹60,00,000
Non-Current Assets:	
Investments (Book Value ₹3,00,000)	₹3,00,000
Current Assets:	
Cash and Bank Balance	₹1,20,000

Additional Information & Board Decisions:

- The Board of Directors decided to redeem the 8% Redeemable Preference Shares on April 1, 2026, at a premium of 10%.
- To make the preference shares eligible for redemption, a final call of ₹20 per share was made and fully collected by March 31, 2026.
- To finance the redemption and maintain legal compliance, the company took the following steps on April 1, 2026: (i) Sold the investments for ₹3,80,000 (ii) issued a sufficient number of new Equity Shares of ₹10 each at a premium of 20% to ensure that the minimum legal balance of divisible profits is utilized, while keeping a minimum cash balance of ₹50,000 in the bank after all transactions.
- The redemption was successfully executed.

Pass the necessary Journal Entries in the books of Beta Ltd. and prepare the balance sheet in the post redemption period.

[**Answer:** Transferred to CRR ₹6,25,000]

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Question 2: Alpha Mega-Industries Ltd. provides the following extracted trial balance metrics as of 31st March 2026:

Liabilities & Assets	Amount (₹)
Authorized Capital: 2,00,000 Equity Shares of ₹10 each; 50,000 Preference Shares of ₹100 each	-
Issued & Paid-up: 80,000 Equity Shares of ₹10 each, fully paid	8,00,000
Issued & Paid-up: 20,000, 9% Redeemable Preference Shares of ₹100 each, ₹90 paid-up	18,00,000
Securities Premium Account (Old Balance)	1,20,000
General Reserve Balance	4,50,000
Profit & Loss Account (Surplus Credit Balance)	3,80,000
Non-Current Investments (Book Value Structure)	6,00,000
Cash and Bank Balances (Opening Liquid Assets)	2,80,000

Additional Information:

- The Board approved the execution of the redemption protocol for the 9% Redeemable Preference Shares on 1st April, 2026, at a premium structured at 15%.
- To validate legal compliance under corporate frameworks, a final call of ₹10 per share was declared on 1st March, 2026. All cash calls were successfully realized except for 1,000 preference shares held by an untraceable shareholder group.
- The Board resolved to formally forfeit the defaulting 1,000 preference shares on 25th March, 2026, rendering them ineligible for immediate redemption tracking.
- To fund the cash layout and maintain mandatory legal compliance reserves, the company executed the following corporate actions on 1st April, 2026:
 - Liquidated 70% of the book value of non-current investments at an appreciated market value of ₹5,10,000.
 - Issued a dynamic batch of new Equity Shares of ₹10 each at an issue premium of 25%. The fresh issue volume must be precisely calculated to simultaneously utilize divisible profits legally while strictly ensuring a minimum targeted cash floor of ₹1,50,000 remains in the bank after all operations.
- The validly outstanding preference shares were settled sequentially on 1st April, 2026.

Pass the necessary Journal Entries in the books of Alpha Mega-Industries Ltd and prepare the balance sheet in the post redemption period.

[Answer: Transferred to CRR ₹8,16,000]

Multiple Choice Questions (MCQs)

Q1. As per Section 55(1) of the Companies Act, 2013, a company limited by shares is prohibited from issuing which type of preference shares?

- A) Redeemable preference shares
- B) Cumulative preference shares
- C) Irredeemable preference shares
- D) Convertible preference shares

Correct Answer: C) Irredeemable preference shares

Q2. What is the maximum period within which preference shares must be redeemed by a normal company under the Companies Act, 2013?

- A) 5 Years
- B) 10 Years
- C) 15 Years
- D) 20 Years

Correct Answer: D) 20 Years

Q3. For companies engaged in the setup and management of infrastructure projects (Schedule VI), preference shares can be issued for a maximum period of up to:

- A) 20 Years
- B) 25 Years
- C) 30 Years
- D) 40 Years

Correct Answer: C) 30 Years

Q4. Which condition is mandatory before any redeemable preference shares are taken up for redemption?

- A) They must be partly paid-up
- B) They must be fully paid-up
- C) Approval must be granted by the RBI
- D) Company must be listed on a stock exchange

Correct Answer: B) They must be fully paid-up

Q5. From which of the following sources can preference shares legally be redeemed?

- A) Proceeds of a fresh issue of shares or divisible profits
- B) Proceeds from the issue of short-term bank loans
- C) Capital reserve and forfeiture account only
- D) Revaluation reserve account

Correct Answer: A) Proceeds of a fresh issue of shares or divisible profits

Q6. When preference shares are redeemed out of accumulated divisible profits, an amount equal to the nominal (face) value of the shares redeemed must be transferred to:

- A) General Reserve Account
- B) Capital Redemption Reserve (CRR) Account
- C) Securities Premium Account
- D) Capital Reserve Account

Correct Answer: B) Capital Redemption Reserve (CRR) Account

Q7. The Capital Redemption Reserve (CRR) can be utilized by the company exclusively for:

- A) Payment of cash dividends
- B) Writing off preliminary expenses or trading losses
- C) Issuing fully paid bonus shares
- D) Meeting premium payable on future redemptions

Correct Answer: C) Issuing fully paid bonus shares

Q8. Premium payable on the redemption of preference shares can be provided for out of:

- A) Securities Premium Account or Statement of Profit and Loss (divisible profits)
- B) Capital Redemption Reserve Account only
- C) Sale proceeds of fixed assets only
- D) Capital Reserve Account derived from fixed asset revaluation

Correct Answer: A) Securities Premium Account or Statement of Profit and Loss (divisible profits)

Q9. Can the proceeds from a fresh issue of debentures be utilized to fund the redemption of preference shares?

- A) Yes, always
- B) Yes, with NCLT approval
- C) No, strictly not allowed
- D) Yes, if approved by 75% of preference shareholders

Correct Answer: C) No, strictly not allowed

Q10. If a company has partly paid-up preference shares of ₹100 each (₹70 called and paid up), what must be done before they can be redeemed?

- A) Redeem ₹70 directly and write off ₹30
- B) Make a final call of ₹30, make them fully paid-up, then redeem
- C) Obtain special permission from the Registrar of Companies (ROC)
- D) Partly paid shares can be redeemed under the 2013 Act without adjustment

Correct Answer: B) Make a final call of ₹30, make them fully paid-up, then redeem

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Q11. Which of the following accounts is a fictitious/nominal profit source and CANNOT be used to transfer amounts to the Capital Redemption Reserve (CRR)?

- A) General Reserve
- B) Dividend Equalisation Reserve
- C) Capital Reserve (profit on revaluation/sale of fixed assets before incorporation)
- D) Retained earnings / Surplus in Profit & Loss

Correct Answer: C) Capital Reserve (profit on revaluation/sale of fixed assets before incorporation)

Q12. Under infrastructure project provisions after 20 years, what minimum proportion of preference shares must infrastructure companies opt to redeem annually starting the 21st year?

- A) 5%
- B) 10%
- C) 15%
- D) 20%

Correct Answer: B) 10%

Q13. Authorization for the redemption and issuance of redeemable preference shares must be explicitly enabled by:

- A) The Articles of Association (AOA) of the company
- B) The Memorandum of Association (MOA) only
- C) SEBI guidelines independently
- D) Regional Director directives

Correct Answer: A) The Articles of Association (AOA) of the company

Q14. When unredeemed preference shares face difficulty in redemption, a company may redeem them by issuing further redeemable preference shares with the consent of:

- A) Majority of equity shareholders
- B) Three-fourths (75%) in value of such preference shareholders and Tribunal (NCLT) approval
- C) Central Government approval only
- D) Unanimous board resolution

Correct Answer: B) Three-fourths (75%) in value of such preference shareholders and Tribunal (NCLT) approval

Q15. The reduction of a company's share capital caused by the proper redemption of redeemable preference shares is treated under law as:

- A) A formal reduction of authorized capital requiring court confirmation
- B) Not amounting to a reduction of authorized share capital
- C) A cancellation of equity ownership
- D) Liquidation trigger event

Correct Answer: B) Not amounting to a reduction of authorized share capital.