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CHAPTER

Redemption of Preference Shares

PROBLEMS & SOLUTIONS

Problem No. 1] Z Ltd. had 9,000 8% Redeemable preference shares of ₹ 100 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares.

How much equity shares are required to be issued in following independent situation if new equity shares are to be issued at:

- (1) ₹ 10 each fully paid up at par.
- (2) ₹ 12 for a premium including ₹ 2.
- (3) ₹ 9 at a discount of ₹ 1.

Ans.:

$$(1) \text{ No. of shares to be issued} = \frac{\text{Amount payable to preference shareholder}}{\text{Nominal value per share}} = \frac{9,00,000}{10} = 90,000$$

$$(2) \text{ No. of shares to be issued} = \frac{\text{Amount payable to preference shareholder}}{\text{Nominal value per share}} = \frac{9,00,000}{10} = 90,000$$

Shares can be issued at premium, but premium money cannot be utilized for redemption of preference share capital. So amount payable to preference shareholder is divided by ₹ 10 and not by ₹ 12. However, premium can be utilized for writing off 'premium payable on redemption of preference shares'.

$$(3) \text{ No. of shares to be issued} = \frac{\text{Amount payable to preference shareholder}}{\text{Nominal value per share}} = \frac{9,00,000}{9} = 1,00,000$$

As per section 53, shares cannot be issued at discount. Issue of shares at discount is covered in this problem so that student can understand the working.

Problem No. 2] The balance sheet of A Ltd. as on 31.12.2018 is given below:

Equities & Liabilities

₹

Shareholders Funds

5,000 Equity Shares (₹ 100 each fully paid-up)	5,00,000
9% Redeemable Preference Shares (₹ 10 each fully paid-up)	2,00,000

<i>Equities & Liabilities</i>	₹
Profit & Loss Account	1,60,000
<i>Non-Current Liabilities</i>	-
Current Liabilities	1,20,000
	<u>9,80,000</u>
<i>Assets</i>	₹
<i>Non-Current Assets</i>	
Fixed Assets	4,00,000
Investments	2,00,000
<i>Current Assets</i>	
Bank Balance	10,000
Other Current Assets	3,70,000
	<u>9,80,000</u>

On 1.1.2019 the company:

- Redeemed preference shares at a premium of ₹ 2 per share.
- Realised investments at a value of ₹ 1,60,000.
- Issued at a premium of ₹ 40 per share, such a number of equity shares of ₹ 100 each for the purpose of redemption as to ensure that after the compliance with the requirements of the Companies Act, 2013, the credit balance in profit and loss account would be ₹ 25,000.
- Issued as bonus equity share at par at the rate of 1 share for every 20 shares held on 31st December, 2018 out of the said balance in profit and loss account.

You are required to show journal entries to record the above transactions including cash and balance sheet as on completion of the above transactions.

Ans.:

In the books of A Ltd.

Journal entries

Date	Particulars	Dr. (₹)	Cr. (₹)
	Bank A/c Dr.	1,60,000	
	Profit & Loss A/c Dr.	40,000	
	To Investment A/c (Being, investment sold at loss)		2,00,000
	Bank A/c (1,450 × 140) Dr.	2,03,000	
	To Equity Share Capital A/c (1,450 × 100)		1,45,000
	To Securities Premium A/c (1,450 × 40)		58,000
	(Being, 1,450 equity share of ₹ 100 issued at ₹ 40 premium as per shareholders ordinary resolution No.... dated)		

Date	Particulars	Dr. (₹)	Cr. (₹)
	9% Preference Share Capital A/c Dr.	2,00,000	
	Premium on Redemption A/c Dr.	40,000	
	To Preference Shareholder A/c		2,40,000
	(Being, amount due on ₹ 10, 9% preference shares at ₹ 2 premium as per Board resolution No. dated)		
	Preference Shareholder A/c Dr.	2,40,000	
	To Bank A/c		2,40,000
	(Being, amount paid to preference shareholder)		
	Profit & Loss A/c Dr.	55,000	
	To Capital Redemption Reserve A/c		55,000
	(Being, amount transferred to CRR as per requirement of Section 55 of the Companies Act, 2013)		
	Profit & Loss A/c Dr.	40,000	
	To Premium on Redemption A/c		40,000
	(Being, premium on redemption of preference share written of from profit and loss account)		
	Capital Redemption Reserve A/c (250 × 100) Dr.	25,000	
	To Bonus to Shareholder A/c		25,000
	(Being, 250 bonus shares of ₹ 100 declared to existing shareholder in the ratio of 1:20 against as per Shareholders Resolution No. dated)		
	Bonus to Shareholder A/c Dr.	25,000	
	To Equity Share Capital A/c		25,000
	(Being, bonus share issued to existing shareholders)		

Balance Sheet of Ananda Ltd.

As at 1.1.2019

EQUITY & LIABILITIES	₹
Shareholder's Funds	
Equity Share Capital	6,70,000
Profit & Loss Account	25,000
Securities Premium	58,000
Capital Redemption Reserve	30,000
Non-Current Liabilities	-
Current Liabilities	1,20,000
	<u>9,03,000</u>

ASSETS		₹
Non-Current Assets		
Fixed Assets		4,00,000
Current Assets		
Bank Balance		1,33,000
Other Current Assets		3,70,000
		<u>9,03,000</u>

As per **Section 55** of the Companies Act, 2013, the Premium payable on redemption of any preference shares shall be provided for out of the profits or out of the securities premium account, before such shares are redeemed. Thus, premium on redemption has been written off against Profit & Loss A/c instead of Securities Premium A/c.

Note No. 1: Calculation of bonus shares to be issued:

No. of equity shares to be issued = $\frac{5,000 \times 1}{20} = 250$

Note No. 2:

Free Reserves		Capital Profits	
	P & L	SP	CRR
Balance in P & L	1,60,000	On issue of equity shares	58,000
(-) Loss on sale of investment	(40,000)	(1,450 × 40)	55,000
	<u>1,20,000</u>	(-) Utilized for bonus issue	(25,000)
(-) Premium payable on redemption	(40,000)		<u>30,000</u>
	80,000		
(-) For preference share capital	(55,000)		
	<u>25,000</u>		

Preference share capital	2,00,000	Premium on redemption	40,000
(-) Out of P & L balance	(55,000)	(20,000 × 2)	
	<u>1,45,000</u>	(-) Out of P & L A/c	(40,000)
(-) Out of proceeds of fresh issue	(1,45,000)		<u>Nil</u>
	<u>Nil</u>		

No. of equity shares to be issued = $\frac{1,45,000}{100} = 1,450$

Arrows has been shown so that students can understand the working.

Problem No. 3] The following is the balance sheet of S Ltd. as on 31.12.2019:

EQUITIES & LIABILITIES		₹
5,000 7.5% Preference Shares (₹ 100 each fully paid-up)		5,00,000
1,00,000 Equity Shares of ₹ 10		10,00,000
Securities Premium Account		1,00,000
General Reserve		7,50,000
Profit & Loss Account		2,00,000
<i>Non-Current Liabilities</i>		-
<i>Current Liabilities</i>		3,50,000
		<hr/> 29,00,000
ASSETS		₹
<i>Non-Current Assets:</i>		
Land & Building		8,00,000
Plant & Machinery		6,00,000
Furniture & Fittings		1,00,000
Investments at cost (Market Value ₹ 2,80,000)		3,00,000
<i>Current Assets:</i>		
Stock		4,70,000
Debtors		2,00,000
Bills Receivable		2,00,000
Cash & Bank Balance		2,30,000
		<hr/> 29,00,000

It was decided to redeem preference shares at a premium of 5% on following terms:

- To finance the redemption, all the investments were sold at market price.
- 9,000 equity shares of ₹ 10 each were issued at par.
- 1,000 6% Debentures of ₹ 100 each at par.
- It was also decided to use general reserve as minimum as possible.

You are required to:

- Pass journal entries to record the above transactions including cash and
- Balance sheet as on completion of the above transactions.

Ans.:

In the books of S Ltd.

Journal entries

Date	Particulars	Dr. (₹)	Cr. (₹)
	Bank A/c	Dr. 2,80,000	
	Profit & Loss A/c	Dr. 20,000	
	To Investment A/c		3,00,000
	(Being, investment sold at loss)		

Date	Particulars	Dr. (₹)	Cr. (₹)
	Bank A/c (10,000 × 9) Dr.	90,000	
	To Equity Share Capital A/c (Being, 10,000 equity share of ₹ 10 issued at ₹ 9 as per Shareholders Resolution No.... dated)		90,000
	Bank A/c (1,000 × 100) Dr.	1,00,000	
	To 6% Debentures A/c (Being, 1,000 6% Debentures of ₹ 100 issued as per shareholders resolution No.... dated)		1,00,000
	7.5% Preference Shares Capital A/c Dr.	5,00,000	
	Premium on Redemption A/c Dr.	25,000	
	To Preference Shareholder A/c (Being, amount due on redemption of 7.5% preference shares to preference shareholder as per Board resolution No... dated)		5,25,000
	Preference Shareholder A/c Dr.	5,25,000	
	To Bank A/c (Being, amount paid to preference shareholder)		5,25,000
	Profit & Loss A/c Dr.	1,80,000	
	General Reserve A/c Dr.	2,30,000	
	To Securities Premium A/c (Being, amount transferred to CRR as per requirement of Section 55 of the Companies Act, 2013)		4,10,000
	Profit & Loss A/c Dr.	25,000	
	To Securities Premium A/c (Being, premium on redemption of preference share written off against profit & loss account)		25,000

Balance Sheet of S Ltd.

As at 31.12.2019

EQUITY & LIABILITIES	₹
Shareholder's Funds	
Equity Share Capital	10,90,000
Securities Premium	75,000
General Reserve	5,20,000
Capital Redemption Reserve	4,10,000
Non-Current Liabilities	
6% Debenture	1,00,000
Current Liabilities	3,50,000
	25,45,000

ASSETS	₹
Non-Current Assets	
Land & Building	8,00,000
Plant & Machinery	6,00,000
Furniture & Fittings	1,00,000
Current Assets	
Stock	4,70,000
Debtors	2,00,000
Bills Receivable	2,00,000
Cash & Bank Balance	1,75,000
	25,45,000

Note No. 1:

Free Reserve			Capital profits	
	P & L	GR	SP	CRR
Balance	2,00,000	7,50,000	1,00,000	4,10,000
Loss on sale of investment	(20,000)	(2,30,000)	Premium redemption (25,000)	
	1,80,000	5,20,000	75,000	
For preference share capital	(1,80,000)			
	Nil			

Preference share capital	5,00,000	Premium on redemption	25,000
Out of proceeds of fresh issue	(90,000)	Out of securities premium	(25,000)
	4,10,000		Nil
Out of P & L balance	(1,80,000)		
	2,30,000		
Out of General reserve	(2,30,000)		
	Nil		

Note No. 2: Proceeds of fresh issue of equity shares can be used for the purpose of redemption of preference share but not proceeds of issue of debentures.

As per **Section 55** of the Companies Act, 2013, the premium payable on redemption of any preference shares shall be provided for out of the profits or out of the securities premium account, before such shares are redeemed. Thus, premium on redemption has been written off against Securities Premium A/c as balance of ₹ 1,00,000 exists in Securities Premium A/c before redemption.

Problem No. 4] The following is the summarised balance sheet of XYZ Ltd.

EQUITIES & LIABILITIES	₹
<i>Shareholder's Funds:</i>	
10,000 Equity Shares (₹ 10 each fully paid)	1,00,000
1,000 Preference Shares (₹ 100 each)	1,00,000
Less: Calls-in-Arrear on 100 share	(2,000)
Securities Premium Account	12,000

Reserve Fund	29,600
Profit & Loss Account	10,000
<i>Non-Current Liabilities:</i>	
<i>Current Liabilities:</i>	-
Creditors	21,000
	<u>2,70,600</u>
ASSETS	₹
<i>Non-Current Assets:</i>	
Fixed Assets	1,30,000
Investment	30,000
<i>Current Assets</i>	
Stock	20,000
Debtors	50,000
Bank Balance	40,600
	<u>2,70,600</u>

The preference shares were redeemed on the following basis:

- (1) Fixed assets costing ₹ 20,000 were sold for ₹ 18,000.
- (2) It was decided to redeem preference shares at a premium of 20%, by issue of sufficient number of equity shares of ₹ 10 each subject leaving balance of ₹ 10,000 in reserve fund.
- (3) All payments were made except to holders of 50 shares who cannot be traced.

You are required to pass journal entries and prepare the balance sheet of the company after redemption of preference shares.

Ans.:

In the books of XYZ Ltd.

Journal Entries

Date	Particulars	Dr. (₹)	Cr. (₹)
	Bank A/c Dr.	18,000	
	Profit & Loss A/c Dr.	2,000	
	To Fixed Assets A/c		20,000
	(Being, fixed assets sold at loss)		
	Bank A/c (6,840 × 9) Dr.	68,400	
	To Equity Share Capital A/c		68,400
	(Being, 6,840 equity share of ₹ 10 issued at par as per Shareholders Resolution No.... dated)		
	Preference Shares Capital A/c Dr.	90,000	
	Premium on Redemption A/c Dr.	18,000	
	To Preference Shareholder A/c		1,08,000
	(Being, amount due on redemption of preference shares to preference shareholder as per Board Resolution No... dated ...)		

Date	Particulars	Dr. (₹)	Cr. (₹)
	Preference Shareholder A/c (1,08,000 × 850/900) Dr.	1,02,000	
	To Bank A/c		1,02,000
	(Being, all payments were made except to holders of 50 shareholders who cannot not be traced)		
	Profit & Loss A/c Dr.	2,000	
	General Reserve A/c Dr.	19,600	
	To Capital Redemption Reserve A/c		21,600
	(Being, amount transferred to CRR as per requirement of Section 55 of the Companies Act, 2013)		
	Securities Premium A/c Dr.	12,000	
	Profit & Loss A/c Dr.	6,000	
	To Premium on Redemption A/c		18,000
	(Being, premium on redemption of preference share written off against securities premium and profit & loss account)		

Balance Sheet of XYZ Ltd.

EQUITY & LIABILITIES	₹
Shareholder's Funds	
Equity Share Capital	1,68,400
Preference Shares Capital (100 Share of ₹ 100 each) 10,000	
Less: Calls-in-Arrear (100 × 20) (2,000)	8,000
Reserve Fund	10,000
Capital Redemption Reserve	21,600
Non-Current Liabilities	-
Current Liabilities	
Creditors	21,000
Amount due to 50 preference shareholder	6,000
	2,35,000
ASSETS	₹
Non-Current Assets	
Fixed Assets	1,10,000
Investment	30,000
Current Assets	
Stock	20,000
Debtors	50,000
Bank Balance	25,000
	2,35,000

Note No. 1: As per **Section 55** of the Companies Act, 2013, only fully paid up preference shares can be redeemed hence only 900 shares can be redeemed.

Note No. 2:

Free Reserves			Capital profits	
	RF	P & L	SP	CRR
Balance	29,600	10,000	12,000	21,600
Loss on sale of fixed assets		(2,000)	Premium redemption	(12,000)
		8,000		-
For premium redemption	-	(6,000)		
		2,000		
For preference share capital	(19,600)	(2,000)		
	10,000	Nil		

Preference share capital (900 × 100)	90,000	Premium redemption (90,000 × 20%)	18,000
Out of P & L balance	(2,000)	Out of SP	(12,000)
	88,000		6,000
Out of reserve fund	(19,600)	Out of P & L A/c	(6,000)
	68,400		Nil
Out of proceeds of fresh issue	(68,400)		
	Nil		

No. of equity shares to be issued = $\frac{68,400}{10} = 6,840$

Problem No. 5] The following is the summarized balance sheet of XYZ Ltd.

EQUITIES & LIABILITIES		₹
50,000 Equity Shares (₹ 10 each)		5,00,000
1,000 Preference Shares (₹ 100 each)	1,00,000	
Less: Calls-in-Arrear (50 × 20)	(1,000)	99,000
Securities Premium Account		20,000
Profit & Loss Account		60,000
General Reserve		70,000
Non-Current Liabilities:		-
Current Liabilities		1,51,000
		9,00,000
ASSETS		₹
Non-Current Assets		90,000
Current Assets		8,10,000
		9,00,000

The redeemable preference shares were redeemed on the following basis:

- (1) Further 4,500 equity shares were issued at a premium of 10%.
- (2) Expenses for fresh issue of shares ₹ 5,000.

- (3) Of the 50 preference shares, holders of 40 shares paid the call money before the date of redemption. The balance 10 shares were forfeited for non-payment of calls before redemption. The forfeited shares were re-issued as fully paid on receipt of ₹ 500 before redemption.
- (4) Preference shares were redeemed at a premium of 10% and share premium account was utilized in full for this purpose.

Show journal entries including those relating to cash and balance sheet after redemption.

Ans.:

In the books of XYZ Ltd.

Journal entries

Date	Particulars	Dr. (₹)	Cr. (₹)
	Bank A/c (40 × 20) Dr.	800	
	To Call-in-Arrear A/c		800
	(Being, amount due on 40 preference shares received)		
	Preference Share Capital A/c (10 × 100) Dr.	1,000	
	To Share Forfeited A/c (10 × 80)		800
	To Call-in-Arrear A/c (10 × 20)		200
	(Being, 10 preference shares forfeited due non-payment of final call as per Board Resolution No..... dated.....)		
	Bank A/c Dr.	500	
	Share Forfeited A/c Dr.	500	
	To Preference Share Capital A/c		1,000
	(Being, 10 forfeited preference shares forfeited re-issued and discount on re-issue debited to share forfeited account)		
	Share Forfeited A/c (800 - 500) Dr.	300	
	To Capital Reserve A/c		300
	(Being, balance on shares forfeited account transferred to capital reserve account)		
	Bank A/c (4,500 × 11) Dr.	49,500	
	To Equity Share Capital A/c (4,500 × 10)		45,000
	To Securities Premium A/c (4,500 × 1)		4,500
	(Being, 4,500 equity share of ₹ 10 issued at ₹ 1 premium as per Shareholders Resolution No.... dated)		
	Expenses on Issue A/c Dr.	5,000	
	To Bank A/c		5,000
	(Being, expenses incurred on issue of equity shares)		
	Profit & Loss A/c Dr.	5,000	
	To Expenses on Issue A/c		5,000
	(Being, balance on expenses on issue account transferred to profit & loss account)		

Date	Particulars	Dr. (₹)	Cr. (₹)
	Preference Shares Capital A/c Dr.	1,00,000	
	Premium on Redemption A/c Dr.	10,000	
	To Preference Shareholder A/c (Being, amount due on redemption of preference shares to preference shareholder as per Board Resolution No... dated ...)		1,10,000
	Preference Shareholder A/c Dr.	1,10,000	
	To Bank A/c (Being, amount paid to preference shareholder)		1,10,000
	Profit & Loss A/c Dr.	55,000	
	To Capital Redemption Reserve A/c (Being, amount transferred to CRR as per requirement of Section 55 of the Companies Act, 2013)		55,000
	Securities Premium A/c Dr.	10,000	
	To Premium on Redemption A/c (Being, premium on redemption of preference share written off against securities premium account)		10,000

Balance Sheet of XYZ Ltd.

EQUITY & LIABILITIES	₹
Shareholder's Funds	
Equity Share Capital	5,45,000
Securities Premium	14,500
Capital Reserve	300
General Reserve	70,000
Capital Redemption Reserve	55,000
Non-Current Liabilities	-
Current Liabilities	1,51,000
	8,35,800
ASSETS	₹
Non-Current Assets	
Fixed Assets	90,000
Current Assets	7,45,800
	8,35,800

Note No. 1:

Free Reserves			Capital Profits			
	P & L	GR		SP	CRR	CR
Balance	60,000	70,000	Balance	20,000	55,000	300
For preference share capital	(55,000)		Premium redemption	(10,000)		
	<u>5,000</u>			<u>10,000</u>		
Expense on issue of shares	(5,000)		Premium on new issue	<u>4,500</u>		
	-			<u>14,500</u>		

Preference share capital	1,00,000	Premium on redemption	10,000
Out of proceeds of fresh issue	(45,000)	Out of SP	(10,000)
	<u>55,000</u>		-
Out of P & L	(55,000)		
	-		

MCQs ON THEORY

1. Preference shares are those which carry the preferential rights as to -

- (A) Payment of dividend at a fixed rate
- (B) Return of capital on winding up of the company
- (C) Both (A) & (B)
- (D) Either (A) or (B)

2. _____ will be entitled to receive arrears of their dividend.

- (A) Cumulative Preference Share
- (B) Non Cumulative Preference Share
- (C) Convertible Debentures
- (D) All of the above

3. Which of the following section of the Companies Act, 2013 prohibits to issue of shares at discount?

- (A) Section 53
- (B) Section 54
- (C) Section 55
- (D) Section 56

4. Which of the following right may be given to preference shareholder if provided by Articles?

- (A) To participate in the surplus profits remaining after payment of equity dividend
- (B) To receive arrears of dividend at the time of winding up
- (C) To receive premium on redemption of preference shares
- (D) All of above

5. Which of the following rights may be given to preference shareholder if provided by Articles?

- (A) To participate in the surplus remaining after the equity shares are redeemed in winding up
- (B) To participate in the surplus profits remaining after payment of equity dividend
- (C) To receive arrears of dividend at the time of winding up
- (D) All of above

6. Which of the following type of security can be issued *at discount* as per Companies Act, 2013?

- (1) Equity Shares
- (2) Sweat Equity Shares
- (3) Preference Shares
- (4) Debentures
- (5) Bonds

Select the correct answer from the options given below -

- (A) (1) & (3) only
- (B) (1), (3) & (4) only
- (C) (2), (4) & (5) only
- (D) (3), (4) & (5) only

7. Which of the following security can be forfeited for non-payment of allotment or call money?

- (I) Equity Shares
- (II) Equity Shares, Preference Shares
- (III) Preference Shares, Equity Shares & Debentures
- (IV) Debentures

Select the correct answer from the options given below -

- (A) (I) only
- (B) (III) only
- (C) (I) & (IV) only
- (D) (II) only

8. Dividends are _____ of profits.

- (A) Appropriation
- (B) Charge
- (C) Transfer
- (D) None of above

9. A company limited by shares may, if authorized by its can issue preference shares which are or at the option of the company are liable to be redeemed

- (A) Memorandum of Association
- (B) Articles of Association
- (C) Creditors of company
- (D) Debtors of company

10. The preference shares can be redeemed:

- (A) Out of profits
- (B) Out of the proceeds of fresh issue of equity shares
- (C) Partly out of profits and partly out of the proceeds of fresh issue of equity shares
- (D) Any of the above

11. When preference shares are redeemed out of profits such profit must be -

- (A) Profits which would otherwise available for dividend
- (B) Capital Profit
- (C) Revaluation Profit
- (D) (B) or (C)

12. Only preferences shares can be redeemed.

- (A) Partly paid up
- (B) Fully paid up
- (C) (A) & (B)
- (D) None of above

13. If any premium is to be payable on redemption of preference share, such premium has to be provided -

- (A) Out of the profits which would otherwise available for dividend *i.e.* free reserve
- (B) Out of the securities premium account
- (C) (A) or (B)
- (D) None of above

14. Where preferences shares are redeemed out of profits, a sum equal to the nominal amount of the shares so redeemed must be transferred to -

- (A) Capital Reserve A/c
- (B) Capital Redemption Reserve A/c
- (C) Capital Profit A/c
- (D) Revenue Redemption Reserve A/c

15. Capital Redemption Reserve Account may be applied to issue -

- (A) Right shares
- (B) Bonus debentures

- (C) Bonus to employees of the company
- (D) Bonus shares

16. No company limited by shares, issue any preference shares which is redeemable after the expiry of a period of _____ from the date of issue

- (A) Ten years
- (B) Five years
- (C) Twenty years
- (D) Twenty five years

17. The balance in capital redemption reserve is available for -

- (A) Issue of fully paid-up bonus shares
- (B) Redemption of preference shares
- (C) Redemption of debentures
- (D) All of the above

18. As per the Companies Act, 2013, preference shares which are issued by company engaged in infrastructure project can issue preference share which are redeemable after _____

- (A) 20 years
- (B) 40 years
- (C) 30 years
- (D) 10 years

19. A preference shares is one which enjoy a:

- (A) Preferential right regarding payment of dividend
- (B) Preferential right regarding allotment of shares
- (C) Preferential right regarding payment of dividend and return of capital
- (D) Preferential right regarding return of capital

20. Unless otherwise stated, a preference share is always deemed to be -

- (A) Cumulative, participating and non-convertible
- (B) Non-cumulative, non-participating and non-convertible
- (C) Cumulative, non-participating and non-convertible

- (D) Non-cumulative, participating and non-convertible

21. As per the Companies Act, 2013 the companies cannot use the balance of Securities Premium for -

- (A) Premium on redemption of debentures
- (B) Issuing bonus shares
- (C) Writing off commission on issue of shares or debentures
- (D) Loss of issue of debentures

22. Which of the following can be utilized in redemption of preference share capital account?

1. Profits available for dividend
2. Capital Reserve
3. Dividend Equalization Fund
4. Development Rebate Reserve
5. Profit Prior to Incorporation

Select the correct answer from the options given below -

- (A) 1, 3 and 5 only
- (B) 2 and 4 only
- (C) 1 and 3 only
- (D) 1, 2, 3 and 5 only

23. Statement I:

The main purpose to create CRR is to keep the capital structure of the company variable.

Statement II:

Another purpose to create CRR is to protect the interest of creditors, since CRR cannot be utilized for payment of dividend.

Select the correct answer from the options given below -

- (A) Statement I is true but Statement II is false
- (B) Both Statement I and Statement II are false
- (C) Statement I is false but Statement II is true

(D) Both Statement I and Statement II are true

24. To whom the bonus shares or rights shares can be issued?

- (A) Equity shareholders
- (B) Preference shareholders
- (C) Both (A) and (B)
- (D) Neither (A) nor (B)

25. Preference shares are entitled to a -

- (A) Variable rate of dividend.
- (B) Fixed rate of dividend.
- (C) Both (A) and (B)
- (D) Neither (A) nor (B)

26. A preference shareholder can vote -

- (A) When his special rights as a preference shareholder are being varied
- (B) On any resolution for the winding up of the company
- (C) When their dividend has not been paid for a period of 2 years or more.
- (D) All of the above

27. Redeemable Preference shares can be redeemed out of _____

- (A) The sale proceeds of Investments
- (B) The proceeds of a fresh issue of shares
- (C) Share premium
- (D) The proceeds of issue of debentures

28. Which of the following is correct journal entry for the 'Amount due to preference shares on redemption'?

(A)	Preference Shareholders A/c	Dr.
	To Preference Share Capital A/c	
(B)	Preference Shareholders A/c	Dr.
	To Preference Share Capital A/c	
	To Premium on Redemption A/c	
(C)	Preference Share Capital A/c	Dr.
	Premium on Redemption A/c	
	To Preference Shareholders A/c	
(D)	Preference Shareholders A/c	Dr.
	To Bank A/c	

29. A company used balance of 'General Reserve' and 'P & L A/c' for redemption of preference share capital amount. Which of the following is correct journal entry for this transaction?

(A)	Capital Redemption Reserve A/c	Dr.
	To General Reserve A/c	
	To Profit & Loss A/c	
(B)	General Reserve A/c	Dr.
	Profit & Loss A/c	
	To Preference Shareholders A/c	
(C)	General Reserve A/c	Dr.
	Profit & Loss A/c	
	To Capital Redemption Reserve A/c	
(D)	Preference Shareholders A/c	Dr.
	To General Reserve A/c	
	To Profit & Loss A/c	

30. Which of the following statements is NOT TRUE with regard to redemption of Preference shares?

- (A) Partly paid shares cannot be redeemed.
- (B) The redemption of preference shares shall be taken as reduction of company's authorized share capital.
- (C) When shares are issued for redemption in future, it will not be treated as increase in capital.
- (D) Preference share can be redeemed either out of the profit by capitalization or amount of fresh issue of shares.

31. When Redeemable Preference shares are due for redemption, the entry passed is

- (A) Debit redeemable Preference Share capital A/c; Credit cash A/c
- (B) Debit Redeemable Preference share capital A/c; credit Preference shareholders A/c
- (C) Debit preference shareholders A/c; credit cash A/c
- (D) Debit preference shareholders A/c; credit capital reduction A/c

32. Which of the following statements is FALSE?

- (A) Redeemable preference share can be issued, if authorized by the articles of association.
- (B) The bonus issue can be made out of securities premium collected only in cash.
- (C) Premium payable on redemption of preference share can be provided of company's securities premium.
- (D) Redeemable preference shares can be redeemed only out of profits of the company.

33. Which of the following cannot be used for the purpose of creation of capital redemption reserve account?

- (A) Profit & Loss A/c (credit balance)
- (B) General Reserve A/c
- (C) Dividend Equalization Reserve A/c
- (D) Unclaimed Dividends A/c

34. According to section 52 of the Companies Act, 2013, the amount in the Securities Premium A/c cannot be used for the purpose of:

- (A) Issue of fully paid bonus shares
- (B) Writing off losses of the company
- (C) For purchase of own securities
- (D) Writing off commission or discount on issue of shares

35. Which of the following statements is TRUE?

- (A) Capital redemption reserve cannot be used for writing off miscellaneous expenses and losses.
- (B) Capital profit realized in cash cannot be used for payment of dividend.
- (C) Reserves created by revaluation of fixed assets are not permitted to be capitalized.
- (D) Dividend is payable on the calls paid in advance by shareholders.

36. Which of the following statements is incorrect?

- (A) In a company liquidation Preference shares are entitled to priority return of capital.
- (B) Preference shares have priority right to receive dividend.
- (C) Normally Preference shares have no votes at meetings of shareholders.
- (D) Preference shares are always cumulative, even if the name does not confirm the position.

37. Which of the following statements is correct?

- (A) Preference shares and debentures have priority right for a reward over ordinary shares.
- (B) Debentures will not receive interest in a year when the company makes an operating loss.
- (C) Preference shares will get dividend only when ordinary shares too receive them.
- (D) Ordinary shares could be paid dividend even when a company has negative retained earnings.

38. For which one or more of the following reasons could a balance in the share premium be applied?

- (a) To issue bonus shares.
- (b) For distribution to shareholders as dividend.
- (c) To write down the value of assets, particularly when they are impaired.
- (d) To write off expenses of and commission on issuing the same shares

Select the correct answer from the options given below -

- (A) (c) & (d)
- (B) (a) & (d)
- (C) (b) & (c)
- (D) (a) & (b)