



# **TRINITY COLLEGE FOR WOMEN NAMAKKAL**

**Department of Commerce**

**CORPORATE ACCOUNTING - I**

**19UCC05-ODD Semester**

**Presented by**

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# Preference Shares

- These are the shares which enjoy preferential rights as to the payment of dividend at a fixed rate during the life of the company and as to the return of capital on winding up of the company.

## Different kinds of preference share

Preference share are classified in following ways

- **Cumulative Preference shares**
- **Non cumulative Preference shares**
- **Participating Preference shares**
- **Non- Participating Preference shares**
- **Redeemable Preference shares**
- **Irredeemable Preference shares**
- **Convertible Preference shares**
- **Non Convertible Preference shares**

# The legal provisions in relating to issue and redemption of preference shares

- Only fully paid up shares can be redeemed.
- The redemption should be taken place within 20 years.
- The Redeemable preference shares can be redeemed out of,
  - Profits available for dividend,
  - The proceeds of the fresh issue of shares made for the purpose of redemption
    - When shares are redeemed out of profit a sum equal to the amount of Redemption Capital Redemption Reserve (CRR)
    - If the redemption is carried out of premium, the premium amounts adjust share premium account (or) P&L account.
    - CRR account should be used for issue of bonus shares.
    - They can be redeemed either at par or at a premium.

## Meaning of Redemption

The company will take back the share or debentures at the maturity period For example:

- Redemption – the company will take back the share from shareholders after stipulated period.
- On 20.08.2010 the company issued 1,000 redeemable preference share of Rs. 10 each. Redeemable after 10 years at 10% premium.
- Issued value =  $1,000 \times 10 = 10,000$
- Principle Value 10,000
- Amount to be paid at maturity 11,000
- Premium 10%
- 1,000

20.8.20 the company will take back the shares at promised value... ( $10,000 + 1000 = 11000$ )

## Capital Redemption Reserve (C.R.R)

- Preference shares can be redeemed out of revenue reserve or out of the proceeds of a fresh issue of shares or a combination of both. If revenue reserves are used, an equal amount should be transferred to Capital Redemption Reserve (CRR). It is essential to find out the amount of transfer to C.R.R. The following formula can be used for the purpose.
- **C.R.R = [Face value of preference shares to be redeemed – Amount received from new issue of shares (Excluding premium)]**

# Table showing Revenue and Capital profits

Revenue Profit	Capital Profit
1. General reserve	1. Capital reserve
2. Reserve fund	2. Capital redemption reserve
3. Profit and loss a/c	3. Development rebate reserve
4. Profit on sales investment/fixed assets (revenue portion)	4. Depreciation reserve
5. Workman's compensation fund	5. Forfeited shares a/c
6. Workman's accident fund	6. Profit prior to incorporation
7. Insurance fund	7. Profit on sale of fixed assets
8. Debenture redemption fund	8. Securities premium account
9. Debenture redemption a/c	
10. Dividend equalization fund	

# MODEL JOURNAL ENTRIES

	Particulars	Dr(Rs)	Cr(Rs)
1	<u>When Fresh Issue of shares (At Par)</u> Bank A/c Dr To Share Capital A/c ( Being new issue of shares at par)	xxx	xxx
1(a)	<u>When Fresh Issue of shares (At Premium)</u> Bank A/c Dr To Share Capital A/c To Share Premium A/c (Being new issue of shares at a premium)	xxx	xxxxxxx
1(b)	<u>When Fresh Issue of shares (At Discount)</u> Bank A/c Dr Discount A/c Dr To Share Capital A/c (Being shares issued at discount)	xxxxxxx	xxx





	Particulars	Dr(Rs)	Cr(Rs)
3	<u>Transfer to Capital Redemption Reserve (CRR)</u> P&L A/c Dr General Reserve A/c DrTo CRR A/c (Being credited to capital redemption reserve)	xxxxxxx	xxx
4	<u>When Shares are Redeemed at Premium:</u> Share Premium A/c Dr P&L A/c Dr To Premium on Redemption A/c (Being adjusted premium amount)	xxx xxx	Xxx
5	<u>Redemption of Preference Shares</u> Preference Share Capital A/c Dr Premium on Redemption A/c DrTo Preference Share holders A/c (Being settlement procedure)	xxxxxxx	Xxx
6	<u>Payment:</u> Preference share holders A/c DrTo Bank A/c (Being final payment to preference share holders)	xxx	Xxx
7	<u>For Declaration of Bonus Shares:</u> CRR A/c Dr To Bonus Shares A/c (Being declare of bonus shares)	xxx	Xxx
8.	<u>Bank over draft raised</u> Bank A/c Dr To Bank overdraft A/c (Being declare of bonus shares))	xxx	Xxx

# THANK YOU

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