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DEPARTMENT OF COMMERCE

JANTA KOSHI COLLEGE BIRAU, DARBHANGA

**For – LNMU B. Com part -2 ,PAPER -IV CORPORATE ACCOUNTING
(Hons.)**

Lecture -3



Unit -1

Accounting for share capital and Debentures

Easy to Understand the concept

Q.3 Distinguish between Share and Debenture.

Ans-Following are the Difference between Shares and Debentures

Shares	Debentures
1.Share is a part of Capital	1. Where Debenture is an acknowledgment of debt
2.Share holders are owners of the company	2.where Debenture holders are creditors of the company.
3.Dividend is paid on shares if company earns profit	3. Where Interest always paid whether profit or loss to company
4.On liquidation shareholders are paid after debentures holders	4.On liquidation Debenture holders are paid before shareholder

Q.4 Explain the Accounting Treatment of Issue of Debentures according to The condition of Redemption.

Ans-

Condition	On Receipt of Application	Allotment of Debentures
1.when Debentures issued	Bank A/c Dr To Debenture	Debenture Application A/c Dr

at par and to be redeemed at par	Application A/c	To Debentures A/c
2. When Debentures issued at par and to be redeemed at premium	Bank A/c. Dr To Debenture Application A/c	Debenture Application A/c. Dr Loss on issue of Debenture A/c Dr To Debentures A/c To Premium on Redemption of Debentures A/c
3. When Debentures issued at premium and redeemable at premium	Bank A/c Dr To Debenture Application A/c	Debenture Application A/c Dr Loss on issue of Debenture A/c Dr To Debentures A/c To Securities Premium A/c To Premium on Redemption of
4. When Debentures issued at Discount and redeemable at Premium	Bank A/c Dr To Debenture Application A/c	Debenture Application A/c. Dr Discount on Issue of Debenture A/c. Dr Loss on issue of Debenture A/c. Dr To Debentures A/c To Premium on Redemption of

		Debentures A/c
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Note : Loss on issue of debentures = premium payable on redemption

Redemption of Preference Shares

Q.1 What are Redeemable Shares? Discuss the different methods of Redeeming the redeemable preference shares. Also give necessary Journal entries under each method.

Ans.: Redeemable Preference shares are those shares, the capital of which is Refunded by the company after a specified duration. The redemption of Such shares is made in accordance with the provisions of section 80 of the Companies Act.

Preference shares can be redeemed when they are fully paid up. In case a Company has partly paid preference shares, it must see that they are made Fully paid up before they are redeemed.

Accounting of Redemption of Preference shares: The preference shares Can be redeemed by the following methods, according to the provision of Section 80 of companies Act :-

- (1) Redemption Out of Profit
- (2) Redemption Out of Fresh Issue of Shares
- (3) Redemption Out of Profits and Fresh Issue of Shares
- (4) Redemption by Conversion

(1) Redemption Out of Profits : When company is redeeming the Preference shares out of profits which are otherwise available for Distribution of dividend, the accounting entries will be as follows :-

(i) On Redemption of Preference Shares :

Preference Share Capital A/c Dr. (Face value)

Premium on Redemption of Preference Shares A/c Dr.
(Premium payable)

To Preference Share Holders A/c

(Being Preference share capital transferred)

(ii) Write Off of Premium Payable on Redemption:

Securities Premium A/c Dr. (First Preference)

Revenue Profit A/c Dr. (Second preference)

To Premium on Redemption of Preference Shares A/c

(iii) Transfer to Capital Reserve Account :

Revenue Profits A/c Dr.

To Capital Redemption Reserves A/c

(Being amount transferred according to section 80 of the Companies Act.)

(iv) On Payment :

Preference Share Holders A/c Dr

To Bank A/c

(Being payment made on redemption)

(2) Redemption Out of Proceeds of Fresh Issue : When a company is Interested to redeem the preference shares out of proceeds of fresh Issue the all above entries mentioned in (1) will be passed except Amount transferred to capital redemption reserve account. In Addition, the entries for fresh issue of shares will be passed.

(3) Redemption Out of Profits Available for Dividend and Proceeds Of New Issue of Shares : In that case, accounting will be same as Above (1) and (2). Here the total of the amount transferred to CRR (Capital Redemption Reserve) and proceeds of fresh issue Excluding securities premium should no be less than by the Nominal value of redeemable preference shares. Entries will be as Follows:

(i) First following entries for the issue of new shares will be Passed :-

(a)Bank A/c Dr.

To Share Application A/c

(Application money on shares received)

(b) Share Application A/c Dr.

To Share Capital A/c

(Amount transferred to share capital on allotment)

(ii) Redemption Out of Profits :

General Reserve A/c or P & L A/c Dr.

To Capital Redemption Reserve A/c

(Amount transferred to capital Redemption Reserve)

(iii) Provision for Premium on Redemption :

P & L A/c or General Reserve A/c

Or Securities Premium A/c Dr.

To Premium on Redemption of Preference shares A/c

(Provision made for Premium on Redemption of preference shares)

At amount transferred to shareholder :

Redeemable Preference Share Capital A/c Dr.

Premium on Redemption of Preference Shares A/c Dr.

To Preference Share Holders A/c

(Being Amount transferred to preference shareholder A/c)

On payments:

Preference Shareholder A/c Dr.

To Bank A/c

(Being payment made)

(4) Redemption by Conversion of Shares : Company can convert the Preference shares into equity shares new preference

shares or Debentures if articles permit. In this method of Redemption first of All number of shares to be issued will be calculated by dividing the Amount payable to preference shareholders by the issue price of Shares or debentures to be issued on conversion, then following Entries will be passed:-

Preference Share Capital A/c Dr.

Premium on Redemption A/c Dr.

To Preference Share Holders A/c

(Being amount transferred to on redemption.)

When its redeemed at premium:

Preference share holders A/c Dr.

To Equity Share Capital A/c

To Preference Share Capital A/c

To Debentures A/c

(Being Preference Shares converted)