

## Redemption of Preference Shares

### Meaning of redeemable preference shares

According to Indian Companies Act, 1956, a company cannot issue irredeemable preference shares allowed under the Act. Further, the redeemable preference shares issued by a company must be redeemed within the maximum period (i.e., 20 years at present). Those are shares which would be paid back with the capital within the life time of the company, usually for fixed period of time

### Meaning of Irredeemable Preference Shares

Those are shares which would be paid back with the capital only when the company is closed (i.e., liquidated)

### Types of Preference Shares

- Redeemable Preference shares
- Irredeemable Preference shares
- Participating Preference shares
- Non-Participating Preference shares
- Cumulative Preference shares
- Non-Cumulative Preference shares

### Capital Redemption Reserve Account

Capital Redemption Reserve by transferring a sum as may be required from the divisible profits or profits otherwise available for dividend. The amount to be credited to or transferred to Capital Redemption Reserve

Journal entry for transfer of divisible profits to Capital Redemption Reserve Account

General reserve (or any other revenue profit)   Dr  
    To Capital Redemption reserve account

### Divisible Profits

Profits available for dividend to shareholders are known as Divisible Profits. These profits of extraordinary nature, that is non-recurring profits arising sale of fixed assets or redemption of fixed liabilities, should not be distributed as dividend.

### Conditions relating to redemption of preference shares

- Only fully paid up Preference Shares will be redeemed.
- Redemption must be either out of fresh issue of shares or out of profits available for payment of dividend
- The Preference Shares will be redeemed at par/ at a premium.
- If the Preference Shares are redeemed at a premium, premium will be provided either out of Securities Premium Account or Profit and Loss Account.
- Where any Preference Shares are redeemed out of profits for dividend, which a sum equivalent to the nominal value of the Preference Shares redeemed will be transferred to the “Capital Redemption Reserve A/C”.
- Capital redemption reserve can be used only for the issue of fully paid bonus shares to the shareholders
- The redemption of Preference Shares will not be taken as reducing the Authorised Share Capital of the Company