

1. According to sec. 100 of the companies act, a company is not allowed to return to its shareholders the share money without the permission of the court. **True**
2. Permission of court is necessary if refund is made to preference share holders. **False**
3. According to sec. 80 of the companies act, partly paid shares can be redeemed. **False**
4. 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
5. Partly paid preference shares cannot be redeemed. **True**
6. 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.
7. 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 share holders a/c**
  - c) Debit preference share holders a/c; credit cash a/c
  - d) Debit preference share holders a/c; credit capital reduction a/c
  - e) Debit redeemable preference share capital a/c; credit capital reduction a/c
8. Preference shares can be redeemed out of the proceeds of fresh issue of debentures. **False**
9. Which of the following can be utilized for the redemption of preference shares of a company out

of profit:

- a) Shares forfeited account
- b) Development rebate reserve account
- c) Capital redemption reserve account
- d) Securities premium account
- e) *Dividend equalisation reserve***

10. Which of the following cannot be utilized for the redemption of preference shares of a company

- a) proceeds of fresh issue of shares
- b) General Reserve
- c) Profit and Loss Account
- d) Dividend equalization reserve

**e) *Securities premium on fresh issue of shares***

11. If preference shares are redeemed out of distributable profits and amount equal to the face value of shares redeemed is transferred to **Capital Redemption Reserve account(CRR)**.

12. CRR can be used for issuing fully paid bonus shares to the existing shareholders. **True**

13. CRR can be reduced in accordance with the sanction of the court relating to reduction of share capital. **True**

14. Redemption of share capital can be regarded as reduction of the authorised share capital of the company. **False**

15. 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) Redeemable preference share can be redeemed only when they are fully paid.
- d) Premium payable on redemption of preference share can be provided of company's securities premium.

*e) Redeemable preference shares can be redeemed only out of profits of the company.*

16. Which of the following statements is false?

a) A company can redeem its preference shares

*b) Preference shareholders are creditors of a company*

c) The part of the authorized capital which can be called up only in the event of liquidation of a company is called reserve capital

d) Capital redemption reserve can be utilized for issuing fully paid bonus shares

17. Which of the following statements is false?

a) Capital redemption reserve cannot be used for writing off miscellaneous expenses and losses

b) Capital profit realized in cash can 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.*

18. A company cannot issue redeemable preference shares for a period exceeding \_\_\_\_\_.

a) 6 years

b) 7 years

c) 8 years

d) **20 years**

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

a) Profit and loss account (credit balance)

b) General reserve account

c) Dividend equalization reserve account

d) **Unclaimed dividends account**

20. Unclaimed dividends account is a liability of the company. **True**

21. The Capital Redemption reserve is created for the following reasons:

- a) To Maintain the capital intact
- b) To safeguard the interest company's creditors
- c) Both of the above**
- d) None of the above

22. Which of the following accounts can be transferred to capital redemption reserve account?

- a) **General reserve account**
- b) Forfeited shares account
- c) Profit prior to incorporation
- d) Securities premium account

23. According to sec. 100(1)(c) of the companies act, a company can pay back share capital which is in excess of need if:

- a) Authorised by articles
- b) Confirmation of the court
- c) Special resolution is passed to that effect
- d) All of the above**

#### **Practical Problems (Try Yourself)**

24. The company has 2,500, 11% redeemable preference shares of Rs.100 each. These shares were due to be redeemed at a premium of 10%. The company has the following profits:

Profit prior to incorporate = Rs.40,000

Capital reserve = Rs.40,000

Securities premium = Rs.20,000

General Reserve = Rs.85,000

Profit and loss a/c = Rs.80,000

As the divisible profits income inadequate, the company issued the number amount of equity share of Rs.10 each at a discount of 10%. What were the numbers of shares issued?

(a) 10,000 Equity Shares (***b) 9,000 Equity Shares***) (c) 8,000 Equity Shares (d) 7,500 Equity Shares (e) 7,000 Equity Shares