Redemption of Preference Shares

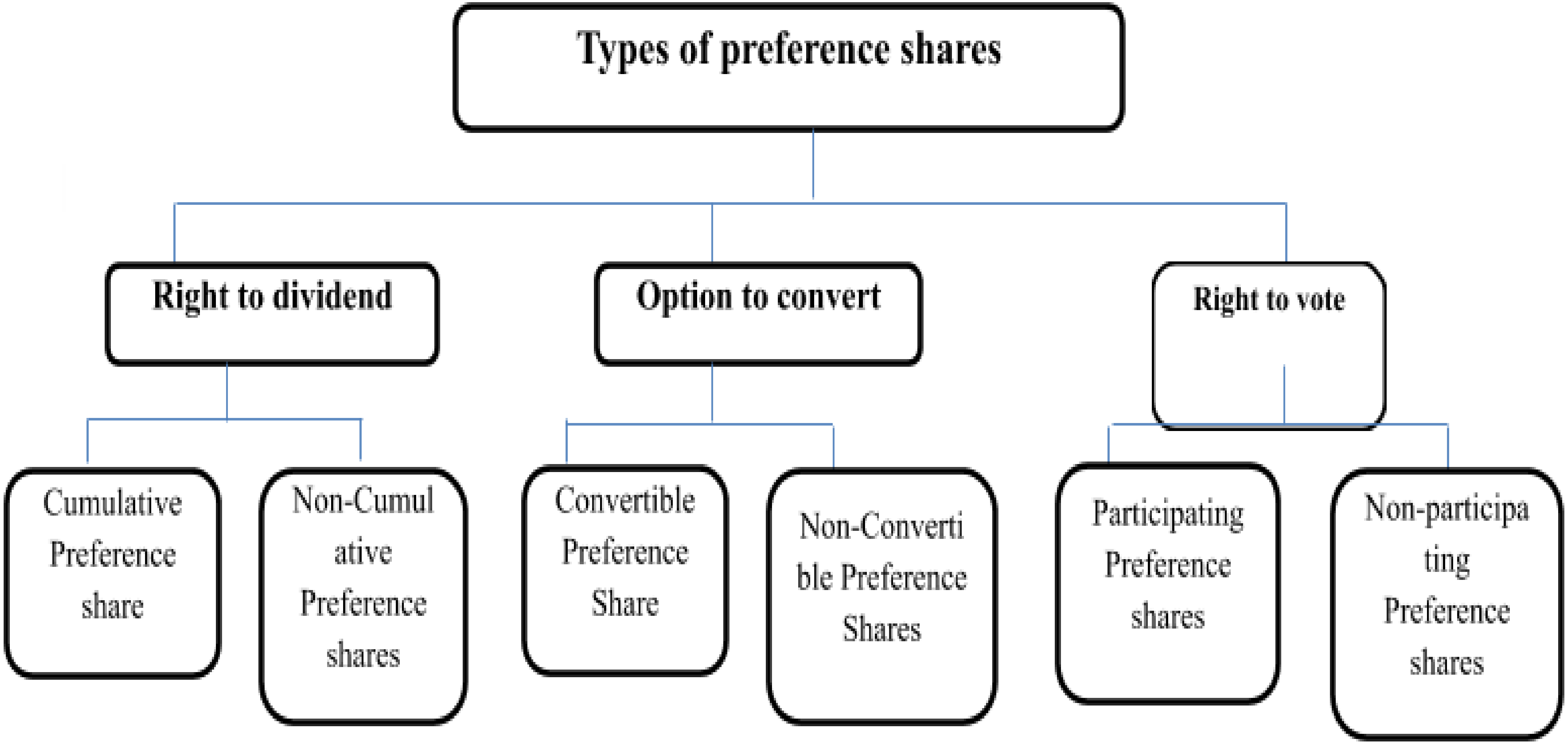
UNIT -I

Meaning of Preference Shares

Preference shares, more commonly referred to as preferred **stock**, are **shares** of a company's **stock** with dividends that are paid out to shareholders before common **stock** dividends are issued. If the company enters bankruptcy, preferred stockholders are entitled to be paid from company assets before common stockholders.

Types of Preference Share

- Convertible and Non-convertible Preference Share
- Cumulative and Non-cumulative Preference Share
- Participating and Non-participating Preference Share
- Redeemable and Irredeemable Preference Share


Types of preference shares
Right to dividend
Option to convert
Right to vote
Cumulative Preference share
Non-Cumulative Preference shares
Convertible Preference Share
Non-Convertible Preference Shares
Participating Preference shares
Non-participating Preference shares

Advantages for companies

a) Fixed return
b) No voting rights
c) Flexibility in Capital Structure
d) No burden on Finance
e) No Change on assets
f) Widens capital market

Advantages for Investors

a) Regular fixed income
b) Preferential rights
c) Voting right for safety of interest
d) Lessor capital lossess
e) Fair security

Disadvantages for Companies

a) Higher rate of dividend
b) Financial burden
c) Dilution of claim over assets
d) Adverse effect on credit worthiness
e) Tax disadvantages

Disadvantages for Investors

a) No voting rights
b) Fixed income
c) No claim over subscription
d) No guarantee of assets

REDEMPTION OF PREFERENCE SHARE

- Only fully paid up Preference Shares will be redeemed.
- The redemption of Preference Shares will not be taken as reducing the Authorised Share Capital of the Company.
- 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".
- Where any Preference Shares are redeemed by issuing of new shares, it must be redeemed within 1 month from the date of issue of new shares & it will not be considered as increase of Authorised Share Capital.


thank you