

On 1 October 20X4, a company issued 50,000 redeemable preference shares with a par value of £100 each to investors at £55. The shares are redeemable at par on 30 September 20X9 and have a coupon rate of 2%. The effective rate of interest is 15.62%.

How would these redeemable preference shares appear in the financial statements for the years ending 30 September 20X5 and 30 September 20X6?

Proceeds of issue = 50,000 x £55 = £2,750,000

Period ended	b/f	Finance costs	Cash paid	c/f
30 Sept		@ 15.62%	@ 2%	
	£000	£000	£000	£000
20X5	2,750	430	(100)	3,080
20X6	3,080	481	(100)	3,461

Year ended 30 September 20X5

Balance sheet value for preference shares	£3,080,000
Interest charged in profit and loss account	£430,000

Year ended 30 September 20X6

Balance sheet value for preference shares	£3,461,000
Interest charged in profit and loss account	£481,000

20X7	3461	541	(100)	3902
20X8	3902	609	(100)	4411
20X9	4411	689	(100 + 5000)	—