

4-8 marks

Buy Back of Eq. Shares (Section 68)

1. Meaning of Buy Back

The term Buy Back of shares implies the act of purchasing its own shares by the co.

Co. 20k shares Buy Back @ ₹25
(Face value = ₹10)

2. Accounting of Buy Back Journal Entries

① Cancellation of Shares Bought Back

Eq Share Cap A/c Dr 2L
Premium on Buy Back A/c Dr 3L
To Eq Share Holders Ac/
Eq Shares Bought Back A/c

(20000 × ₹10 (FV))
(20000 × ₹15 (Prew))
SL (20000 × 25)

② Payment of Amt. due

Eq Share Holders / Eq Sh. Bought Back A/c Dr SL
To C/B SL

③ Write off Prem on Buy Back (eg.

Security Prem A/c Dr 1L
Free Reserve A/c Dr 2L

Bk	
Acc	
S.P	1L
Gr.R	2L
PL	2L

TO Premium on Buy Back 3L

(eg. Gen. Res, PL, Revenue Res. etc).

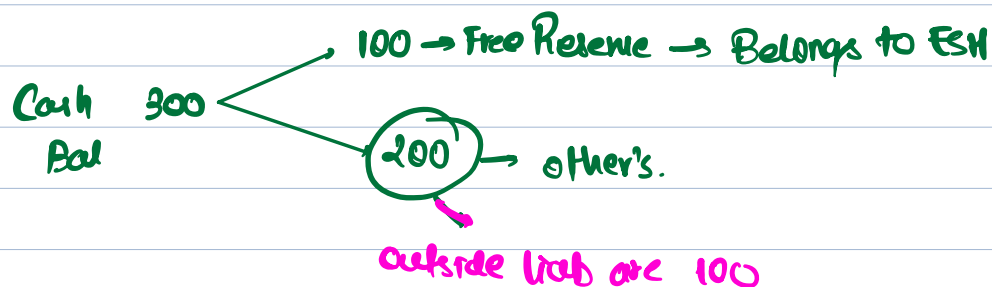
① Transfer of Reserves to CRR (Capital Redemption Reserve) to the extent of face value of shares bought back.

Free Reserves A/c Dr 2L
To CRR 2L

Ex: 199 :

Why transfer to CRR ?

<u>Before BB</u>		<u>BS (BB Visuals)</u>	
ESC	100	Assets	
FRB (Free Reserves)	<u>100</u>	cash / Bank	300
		outside Liab	100
		(Deb / Bank loans / Creditors)	



i.e. outside Liab are 2 times protected.

BB Happens 2 shares @ ₹10 (Fv) = 20 → ESC 20
To Liab 20

After BB

	BK	BB	Virtuals
Esc	80	100	clB
Res		100	300
outside		100	
Liab			

Free Reserves
100 for ESH

Cash Bal 280

180 → others.

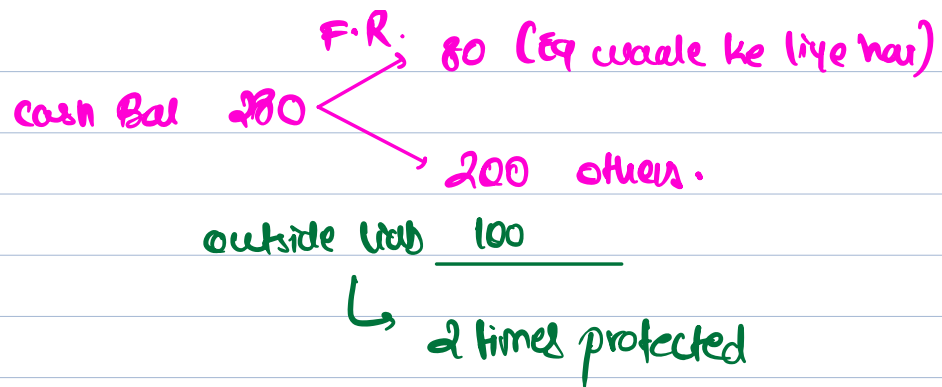
outside 100
Liab

1.8 times protected.

Trf to CRB F.R 20
TO CRR. 20

	BK	BB	Virtuals
Esc	80	100	clB
Res (Free Rese)		100 80	300
CRR (Non Free Rese)		20	
outside		100	
Liab			

CRB
P Esc



Note:

① CRR can only be used for issuing Bonus shares

J.E C.R.R
 To Bonus Shares
 Bonus Shares
 To ESC

As Bonus shares denote free reserves pe koi impact nahi aaya.
 Only CRR reduces & ESC increases.

② Securities Premium is not a Free Reserve, But for the purpose of BuyBack it will be treated as a Free Reserve.

Securities Premium (Free Reserve)

for writing off them on BB → can be used

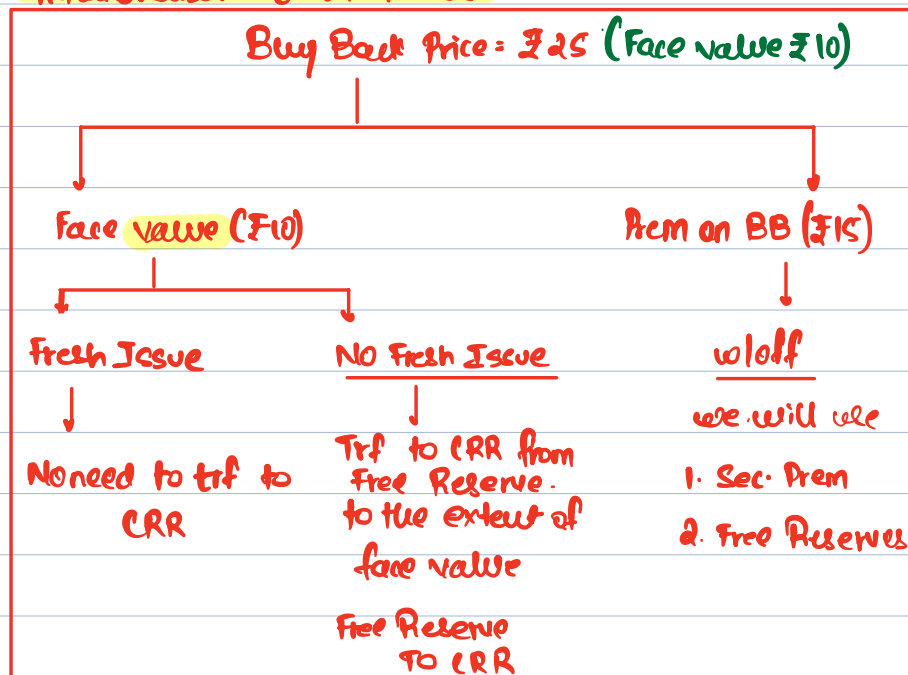
for transfer to CRR → Not to be used.

③ Transfer of face value of shares will **NOT** be done from Free Reserve to CRR when company issued new shares (equity or pref) for the purpose of BuyBack.

eg: Bahar se samosa laake khaya ghar mein, jo ghar mein pehle se

pada tha woh nahi khaya. $\therefore$ No need to lock funds in CRR.

Akhai Bhai Sahab Exclusive



Q1 Journal Entries

① Sale of Invest

ClB A/c Dr 25L

Profit/Loss (Loss) Dr (5L)

To Invest A/c 30L

(always cost/carrying Amt)

② Buy Back

Eq Share Cap (Esc) A/c Dr 600000 (60000 × ₹10)

Prem on B.B A/c Dr 300000 (60000 × ₹5)

To Eq Share Bought Back A/c 900000 (60000 × ₹15)

⑥ Eq. Share Bought Back Ac Dr 900000
To ClB 900000

⑦ Sec. Prem Ac Dr 300000
To Prem on B.B Ac 300000

⑧ Revenue Reserve Ac Dr Ac 600000 } Face value
To CRR 600000

Q2

J] Journal Entries

i] Redemption of Pref Share (Hint: Entries are same as Buy Back of Eq.Sh)
(Fin error)

01/04/21 Pref Sh. Cap Ac Dr 75
To Pref Sh. holders Ac 75

Pref Sh. Holders Ac Dr 75
To ClB 75

Revenue Reserve 75
To CRR 75

2] Eq Shares B.B $\left(\begin{array}{l} 0.5 \text{ cr shares @ } \$50 \\ \text{fy } 10 = 5 \text{ cr} \\ \text{SP } 40 = 20 \text{ cr} \end{array} \right)$

(a) Eq Sh. Cap Alc Dr 5 cr
Prem on B.B Alc Dr 20 cr
To Eq. Shares Bought Back Alc 25 cr

(b) Eq Shares Bought Back Alc Dr 25
To CIB 25

(c) Sec. Prem 20
To Prem on BB 20

(d) Rev Rese 5
To CRR 5 } @ Face value

Balance Sheet of Anu Ltd as at 01.04.21

Particulars	Note	₹
<u>Equity & Liab</u>		
<u>Shareholder's funds</u>		
A. Share Capital	1	20
B. Reserves & Surplus	2	280
<u>Current Liab</u>		
A. Trade payables		40
Total		<u>340</u>
<u>Assets</u>		
<u>Non-current Assets</u>		
A. Property, Plant & Equipment	NO adj in this ∴ Note not prepared. } - -	-
B. Non-current Investments		100
<u>Current Assets</u>		
A. Trade receivables		140
B. Cash & Cash equivalents	3	100
		<u>340</u>

Note to A/c's

① Share Capital

Authorised, Issued & Subscribed Share Cap.

12% Pref Share	75	
Less: Redemption	(75)	NIL
Eq Shares	25	
Less: Buy Back	(5)	20
		<u>20</u>

⑤ Reserves & Surplus

⑥ Capital Reserve 15

⑦ Sec. Prem 25
Less: Prem on BB (20) 5

⑧ Revenue Reserve 260
Less: Trf to CRR (For Pref) (75)
Less: ——— (For Eq) (5) 180

⑨ CRR -
Add: Trf from Rev Reserve (For Pref) 75
Add: ——— (for Eq) 5 80
280

③ Cash & Cash Equivalent

Opn Bal 200
Less: Redemptⁿ of Pref (75)
Less: Buy Back of Eq Share (25) 100

Ques 3

I] Journal Entries

i) Sale of Invest

01/04/11 Bank A/c Dr 75

 TO Invest 74

 TO P/L (Profit) 1

II] Buy Back of shares $(1200 / 10 = 120 \text{ lakh shares} \times 25\%) = 30 \text{ lakh shares}$ $\leftarrow \begin{matrix} \text{FV } 10 \\ \text{C.P } 5 \end{matrix}$

05/04/11 Eq Sh. Cap A/c Dr 300

 Prem on B.B A/c Dr 150

 TO Eq. Share Bought Back A/c 450

 Eq Share Bought Back A/c Dr 450

 TO C/B 450

 Sec. Prem 150

 TO Prem on BB 150

 Gen. Res A/c Dr 265

 Profit or loss A/c Dr (B/L) 35

 TO CRR 300

III] Bonus Shares

$(120 \text{ lakh shares} \rightarrow 30 \text{ lakh shares}) = 90 \text{ lakh shares} \times \frac{1}{4} = 22.5 \text{ lakh shares} \times \text{FV } 10 = 225 \text{ lakhs.}$

Buy Back

30/04/21 ~~CR~~ Alc Dr 225

~~Dr~~ Bonus Share 225

~~Bonus share~~ 225

Dr Eq Sh. Cap 225

Balance Sheet of KR Limited (after BB & Bonus Shares)

Particulars	Note	₹ (in lakh)
<u>Equity & Liab</u>		
<u>Shareholder's funds</u>		
A. Share Capital	1	1125
B. Reserves & Surplus	2	436
<u>Non-Curr Liab</u>		
Long term Borrowings		750
<u>Curr. Liab</u>		
Trade payables		745
Other Curr Liab		195
Total		<u>3251</u>
<u>Asset</u>		
<u>Non-current Assets</u>		
A. Property, Plant & Equipment		2026
B. Non-current Investments	3	-

<u>Current Assets</u>		
A. Inventories		600
B. Trade receivables		260
C. Cash & Cash equivalents	4	365
		<u>3251</u>

Notes to A/c's

① Sh. Cap

Authorised, Issued & Subscribed Capital

Eq Sh. Cap	1200	
less: Buy Back	(300)	
Add: Bonus Shares	(225)	1125

② Res. & Surplus

① Sec. Prem

	175	
less: Prem on BB	(150)	25

② Gen. Resc

	265	
less: Trf to CRR	(265)	-

③ CRR

	200	
Add: Trf from G-R	265	
Add: Trf from PL	35	
less: Bonus shares	(225)	275

④ Profit or loss

	170	
less: Trf to CRR	(35)	
Add: Gain on sale of Invest	1	136
		<u>436</u>

③ Non Curr Invest

less: Sold

74

(74)

-

④ CCE

Add: Invest sold

less: Buy Back

740

75

(450)

365

Ques 5 (LOR)

I] Cancellⁿ of Invest in Own Deb

Deb (Liab) A/c Dr 2.2 lakhs
 To Invest in Own Deb 2 lakhs
 To Profit on cancellⁿ 0.2 lakhs
 (Cap. Reserve)

Flow

- i) Deb cancellⁿ
- ii) ESOP
- iii) Prof. Res
- iv) Eq. B-B
- v) B/s.

Extra Id

<u>Liab</u>		<u>Asset</u>	
Deb Issue	2.2 lakhs	Invest in	2 lakhs
(Face value)		Own Deb	
		(Cost)	

II] ESOP (Employee stock option plan)

Co. promises to give employee shares for free/@ a lower price, if employee stays with the company for certain years
 (Total shares promised = 1,00,000, Mkt price = ₹30, Exercise price = ₹20
 50000 shares subscribed as of now).

Bank A/c Dr 10L (50000 shares x ₹20)
 Reverse.
 ESOP Liab A/c Dr SL (50000 shares x ₹10) Face Value
 To Esc SL (50000 shares x ₹10)
 To Sec. Prem 10L (50000 shares x ₹20) Sec. Prem

III] Redemption of Pref

~~Pref Sh. Cap~~ Alc Dr 20
~~Prem on Redemptⁿ~~ Alc Dr 2
~~To~~ Pref Sh. Holders 22

~~Pref Sh. holder~~ Alc Dr 22
~~To~~ Bank Alc 22

~~Sec. Prem~~ 2
~~To~~ Prem on Redemptⁿ 2

~~Revenue Reserve~~ 20
~~To~~ CRF 20

} @ face value

IV] Buy Back of Eq. Shares

~~Eq Sh. Cap~~ Alc Dr 30L (3L x 10)
~~Prem on BB~~ Alc Dr 60L (3L x 20)
~~To~~ Eq. Sh. Bought Back Alc 90L (3L x 30)

~~Eq. Sh. B.B~~ Alc Dr 90L
~~To~~ CIB Alc 90L

~~Sec. Prem~~ Alc Dr 60
~~To~~ Prem on BB 60

~~Rev. Res.~~ 30 } face value
~~to CRR~~ 30

Particulars	Note	₹ (in lakhs)
<u>Equity & Liab</u>		
<u>Shareholder's funds</u>		
A. Share Capital	1	75
B. Reserves & Surplus	2	66.2
<u>Non-Curr Liab</u>		
Long term Borrowings	3	1.8
<u>Curr Liab</u>		
Trade payables	4	65
Total		<u>208</u>
<u>Assets</u>		
<u>Non-current Assets</u>		
A. Property, Plant & Equip		50
B. Non-curr Invest	5	118
<u>Current Assets</u>		
A. Cash & Cash Equivalents	6	40
Total		<u>208</u>

Notes to A/c's

① Share Cap

Authorised, Issued & Subscribed

Eq. Sh. Cap

100

Add: Shares issued in ESOP

5

less: Buy Back

(30)

75

Pref Sh. Cap

20

less: Redemption

(20)

NIL

② Reserves & Surplus

a) Capital Reserve

8

Add: Profit on cancellⁿ

0.2

8.2

b) Rev. Reserve

50

less: Trf to LRR (Pref)

(20)

less: ——— (Eq)

(30)

NIL

c) Sec Prem

60

Add: Prem on ESOP

10

less: Prem on redemptⁿ

(2)

less: ——— Buy Back

(60)

8

d) C.R.R

-

Add: Trf from P.R (Pref)

20

Add: ——— (Eq)

30

50

66.2

③ Long term Borr.

10% Deb

4

less: Deb cancel

(2.2)

1.8

④ Trade payable	70	
less: ESOP Liab	<u>(5)</u>	65

⑤ Non- Curr Invest	120	
less: Dep cancell	<u>(2)</u>	118

⑥ Cash & Cash Eq.	142	
Add: ESOP	10	
less: Redempt ⁿ (Pref)	(22)	
less: Buy Back (Eq)	<u>(90)</u>	40

Ques 6

1) Investment sold

Bank Acc Dr	25000
TO Investment	24000
TO Profit & loss	(1000)

2) Bank loan

Bank Acc Dr	16000
TO Bank loan Acc	16000

3) Pref - Redemptⁿ

Pref Sh. Cap Acc Dr	20000
Premium on Pref Dr	2000
TO PSH Acc	22000

PSH Acc Dr 22000

TO Bank 22000

Sec. Prem 2000

TO Prem on Def Redempt 2000

G-R 20000

TO LRR 20000

④ Eq BB $(6400 \times 25\%) = 1600 \times \frac{2}{20} < \begin{matrix} Fu 10 & 16000 \\ S.P 10 & 16000 \end{matrix}$

Esc Acc Dr 16000

Prem on BB 16000

TO Eq Ch. BB 32000

Eq Sh. BB 32000

TO Bank 32000

★ Sec. Prem Acc Dr 4400 Prem on Def
(6400 - 2000)

Gen. Res Acc Dr 11600

TO Prem on BB 16000

G-R 16000

TO LRR 16000

Ques 7 (LOR)

I] Sale of Invest

Bank A/c Dr 80000
Profit/Loss (loss) Dr 20000
To Invest A/c 100000

II] Deb Issue

Bank A/c Dr 66000
To 10% Deb 60000
To Sec. Prem 6000

III] Buy Back Exp

Buy Back Exp Dr 2000
To CLB 2000

PL A/c Dr 2000
To Buy Back Exp 2000

IV] Eq. Shares Buy Back $(60000 \times 25\%) = 15000$ $\begin{matrix} \nearrow \text{FV } 10 \\ \searrow \text{SP } 5 \end{matrix}$

a) Esc A/c Dr 150000
Prem on B.B Dr 75000
To Eq. Sh. B.B A/c 225000

b) Eq. Sh. BB A/c Dr 225000
To CLB A/c 225000

c) Sec. Prem A/c Dr 75000
 To Prem on B.B. 75000

} we have sufficient Balance in
 Sec. Prem → Opn 70000

(+) Deb Prem 6000 76000

d) General Res A/c Dr 43000
 P/L A/c Dr 107000 (B/B)
 To CRR 150000

G.R opn 63000
 Bal to be (20000)
 maintained
 Available 43000
 Gen. Res

Note: whenever company makes a fresh issue of Eq or Pref Shares for the purpose of B.B., then CRR creation to the extent of New Issue is NOT required.

Debenture issue is not to be considered on the above concept.

Dr.	Bank A/c		Cr.
To bal bld	83000	By Buy Back Exp	2000
To Invest (Sale)	80000	By Eq. Sh. B.B.	225000
To 10% Deb	60000		
To Sec. Prem	6000	By bal cld	2000

Q8 (LOR)

Flow of Over.

- | | |
|--------------|-----|
| ① Issue Deb | J-E |
| ② Issue Pref | |
| ③ Sale Invet | |
| ④ B.S - Eq | |
| ⑤ Bonus | |
| ⑥ B.S. | |

Rev. Retc sc
Bal to be (dl)
maintained _____
Available for 31
B.S

Journal Entries

① Issue of Deb

clB	Ac	Dr	360000	(3000 Deb x ₹120)
	To 14% Deb		300000	(@FV)
	To Sec. Prem		60000	

② Issue of Pref

clB	Ac	Dr	250000	(2500 Pref x 100)
	To 10% Pref Sh. Cap		250000	

③ Sale of Invet

clB	Ac	Dr	150000	
	To Invet		100000	
	To P/L Ac (Profit)		50000	

④ Buy Back → Eq (Face value \$20) $\left(\frac{50L}{20}\right) = 250000 \times 25\% = 62500 \text{ share}$
 @ \$36

① Esc Alc Dr 1250000 (62500 x 20)

Prem on BB Dr 1000000 (62500 x 16)

TO Eq. Sh. B.B Alc 2250000

$\swarrow \searrow$
 S.P
 FV 20 S.P 16

② Eq. Sh. BB Alc Dr 2250000

TO ClB Alc 2250000

③ Sec. Prem Alc Dr 1000000

TO Prem on BB Alc 1000000

9.11.18

④ R.R Alc Dr 5L

PIL Alc Dr 9.5L

TO ERR 1250000

Rev. Reserve Alc Dr 300000

PIL Alc Dr 700000

TO ERR 1000000

Eq Sh. Cap (Face value)

12,50,000

Free issue

250000

NO trf to ERR reqd.

No. Free issue

10,00,000

ERR trf reqd.

⑤ Bonus $(250000 - 162500) = 187500 \text{ shares} \times \frac{3}{15} = 37500 \text{ shares (F.V. = 20)}$

ERR Alc Dr 750000

TO Bonus shares 750000

Bonus share Dr. 750000

TO Esc 750000

Balance sheet (After Buy Back & Bonus shares)

<u>I] Eq & Liab</u>		
a. Share Cap	1	5750000
b. Reserves & Surplus	2	2710000
<u>Non Current Liab</u>		
Debentures	3	1550000
<u>Curr Liab</u>		
Curr Liab & Prov		<u>550000</u>
		<u>1,05,60,000</u>
<u>II] Assets</u>		
<u>Non-current Assets</u>		
PPE		1,00,75,000
<u>Current Assets</u>		
Invest	4	200000
Inventory		200000
Cash & Bank Balance	5	<u>85000</u>
		<u>1,05,60,000</u>

① Notes to A/c's

Share Capital

Eq Sh. Cap	50,00,000	
less: BB	(1250000)	
(+) Bonus	750000	4500000
Pref Sh. Cap	1000000	
(+) New Issue	250000	1250000
		<u>5750000</u>

② R&S

a) Cap. Res		100000
b) Sec. Prem	1200000	
Add: Prem on Deb Issue	60000	
less: Prem on BB	(1000000)	260000
c) Rev. Res	500000	
less: Trf to CRR	(300000)	200000
d) P/L	2000000	
Add: Profit on Sale	50000	
less: Trf to CRR	(700000)	1350000
e) Div. Eq. Fund		550000

④ CRR

Creation thru RP & P/L	1000000	
less: Bonus	(750000)	250000
		<u>27,10,000</u>

③ Deb

127. Deb	1250000	
147. Deb	300000	1550000

④ Investments

Less: Sold

200000

(100000) 200000

⑤ CCE

(+) Deb Issued

1575000

260000

(+) Pref Issued

250000

(+) Invest sold

150000

(-) Eq. Sh. BB

(2250000) 75000

~~July~~

3] Calculation of Maximum No. of shares to be bought back

↓
3 Test conditions

~~57~~
"No. of shares"

i) Shares outstanding test

Total No. of eq. shares outstanding $\times 25\%$

ii) Resource test

25% of Paid up Cap + Free Reserves

Buy Back Price

iii) Debt / Equity Ratio Test

Debt / Equity ratio post Buy Back should not exceed the ratio of 2:1

(a) Compute Total Debt (Secured + Unsecured + Long term + Short term)

(b) Minimum Eq to be maintained Post Buy Back (Total Debt $\div 2$)

(c) Present Eq. Share Cap (+) Free Reserves

(d) Maximum Amount Available for Buy Back (By simultaneous equation)

(e) No. of shares that can be bought back $\left(\frac{\text{Max Amt available}}{\text{Buy Back Price}} \right)$ ^{step d}

Note:

① The maximum no. of shares that can be bought back is the LEAST of no. of shares in the above 3 test.

$$\begin{array}{c} D/E = 2:1 \\ \downarrow \quad \downarrow \\ 2 \quad 1 \end{array}$$

Ak 14d Bk	
Esc 150	Asch 500
Free 50	
Reserve	
loan funds 300	

Debt 300

Min. Eq. (Post BB) 150 (BB ke baad equity should not fall below 150)
150 se zyada hua toh no problem
Eq means = Paid up Cap (+) Free Reserves.

Case ① Post BB Equity is 120 $\rightarrow$ Nahi cholge. 😞

$$\frac{\text{Debt}}{\text{Eq}} = \frac{300}{120} = 2.5 : 1$$

Case 3) Post BB Equity is 180 $\rightarrow$ Cholbe 

$$\frac{\text{Debt}}{\text{Eq}} = \frac{300}{180} = 1.67:1$$

- i) Debt = 300
- ii) Min Equity to be maintained = 150 ($300/2$)
- iii) Present Equity = 200
- BB Funds available ~~50~~

Jss 50 mein se

BB bhi karna hai &

CRR mein erf bhi karna hai

Q10 Calculation of maximum No. of shares that can be bought back

3 Tests

i) Share outstanding test

$$\text{Total No. of shares outstanding} \times 25\%$$

$$3,00,000 \text{ shares} \times 25\%$$

$$= 75,000 \text{ shares}$$

ii) Resource Test

$$(\text{Paid up Capital} + \text{Free Reserves}) \times 25\%$$

Buy Back Price

$$(30,00,000 + 32,50,000 + 600,000 + 430,000) \times 25\% = 18,20,000$$

Esc

G.R

S.P

PL

Buy Back Price → 730

Price

$$= 60,666 \text{ shares}$$

Extra

iii) Debt/Equity Ratio Test (2:1)

(a) Total Debt 42,00,000

(b) Minimum Eq to be maintained Post Buy Back $\left(\frac{42L}{2}\right)$ 21,00,000

(c) Present Eq (Paid up Cap + FR) 72,80,000

(d) Max Amt Available for B.B (Refer unit Below) - 14 38,85,000

(e) Max. No. of shares that can be bought Back $\left(\frac{38,85,000}{30}\right)$ 1,29,500 shares.
(Amt in stepd)
BB Price

Note: In ques only debt/Eq. test was asked

Let the Amt trf to CRR be x

Let Maximum Amount Available for BB be y .

1) Present Equity - x - y = Minimum Equity (Post BB)

$$72,80,000 - x - y = 21,00,000 \quad \text{--- (i)}$$

2) $\frac{y}{30}$ (x) Face value = x
BB Price

$$\frac{y}{30} (x) 10 = x$$

$$y = 3x \quad \text{--- (ii)}$$

By solving simultaneous equation (i) & (ii)

$$72,80,000 \leftarrow x \leftarrow 3x = 21,00,000$$

$$72,80,000 \leftarrow 4x = 21,00,000$$

$$72,80,000 - 21,00,000 = 4x$$

$$51,80,000 = 4x$$

$$\therefore x = \frac{51,80,000}{4}$$

$$x = 12,95,000 \rightarrow \text{Amt to be trf to ERR}$$

$$y = 3x$$

$$= 3 \times 12,95,000$$

$$= 38,85,000 \rightarrow \text{Max Amt Available for B.B.}$$

Shortcut	
i) Present Eq	72,80,000
ii) Min Eq	21,00,000
	51,80,000
	÷ 40
	12,95,000
Max No. of Shares to be bought	Shares

$$\begin{array}{r} \text{BB} - 30 \\ + \\ \text{ERR} - 10 \text{ (face value)} \\ \hline 40 \end{array}$$

Q12 (LDR)

1] Calculation of Max. No. of shares that can be bought back

Flow

- 1) 3 test
- 2) BB - J-E
- 3) BIs.

i) Share outstanding test

$$\begin{aligned} & \text{Total No. of shares outstanding} \times 25\% \\ & 125000 \times 25\% \end{aligned}$$

31250 shares.

ii) Resource Test

$$\frac{(\text{Paidup Cap} + \text{Free Reserves}) \times 25\%}{\text{BB Price}}$$

$$= \frac{(1250000 + 250000 + 125000 + 15,00,000) \times 25\%}{20} = 781250$$

Round off to lower digit = 39062 shares in case of shares.

iii) Debt / Equity Ratio Test (Post B-B it should not exceed 2:1)

Ⓐ Total Debt (Long term Borr + Other curr liab)	4525000
2875000 + 1650000	

Ⓑ Minimum Eq Post B-B ($\div \frac{\text{Total Debt}}{2}$)	2262500
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Ⓒ Present Eq (Paidup Cap + Free Reserves)	31,25,000
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Ⓓ Max. Amt Available for B.B (Refer w.n)	575000
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② Max No. of shares that can be bought back $\left(\frac{575000}{20}\right)$ 28750 shares

The Co. qualified all test for BB & came to the conclusion that it can B.B maximum 28750 shares (least of above 3 test). However co. wants to BB only 25000 shares $\therefore$ the BB is within the prov of companies Act, 2013.

W.M Let the Amt ttf to CRR be x

max. Amt available for B.B be y .

$$3125000 - x - y = 2262500 \longrightarrow \textcircled{i}$$

$$\frac{y}{20} \times 10 = x$$

$$y = 2x \longrightarrow \textcircled{ii}$$

$$3125000 - x - 2x = 2262500$$

$$862500 = 3x$$

$$\therefore x = \frac{862500}{3}$$

$$= 287500 \longrightarrow \text{Amt ttf to CRR}$$

$$y = 2x$$

$$= 2 \times 287500$$

$$= 575000 \longrightarrow \text{Max Amt avail. for BB}$$

Shortcut

Paid up Eq	3125000	
Min Eq	2262500	
	862500	
$\div$ BB Price + FV	30	
	28750 shares	

$\swarrow$ BB
 $\searrow$ CRR

II] Journal Entries (for BB of 25000 shares @ ₹ 20)

i) ~~Esc~~ Dr 250000
~~Prem on BB~~ Dr 250000
~~To Eq. Sh. BB~~ 500000

ii) ~~Eq Sh. B.B~~ Dr 500000
~~To CLB~~ 500000

iii) ~~Sec. Prem~~ Dr 250000
~~To Prem on BB~~ 250000

iv) ~~Rev Reserve~~ 250000
~~To CRP~~ 250000

Balance sheet of M/s Competent Ltd		
<u>Eq & Liab</u>		
SHF		
⑥ SC	①	10,00,000
⑥ RES	②	16,25,000
<u>NCL</u>		
Long term Borr		2875000
<u>CL</u>		
Other Curr Liab		1650000
		<u>7150000</u>
<u>Assets</u>		
<u>NLA</u>		
PPE		4650000

CA

Other Curr Asset

(3)

2500000

7150000

Notes to A/c's

① Share Cap

Esc

1250000

less: BB

(250000) → 10,00,000

② Res

① Sec. Prem

250000

less: Prem on BB

(200000) → Nil

⑥ Profit & loss

125000

⑦ RR

1500000

less: Trf to LR

(250000) → 1250000

⑧ CR

250000

1625000

③ Other Cash Asset

30,00,000

(-) Payment for BB

(500000) → 2500000

While calculating total Debt for the purpose of D/E ratio, we can consider other current/other non-curr Liab in Debt

Please Note: If trade payables are given separately, ideally they should not form part of total Debt.

Alternative assumptions are also permitted by ICAI.

Q13

Calculation of Max No. of shares that can be bought back

i) Share outstanding test $(400000 \times 25\%)$ 100000 shares.
shares

ii) Resource Test

(Paid up Cap (+) Free Reserves) $\times$ 25%

BB Price

$$(40,00,000 + 48,00,000 + 10,00,000 + 18,00,000) \times 25\% = \frac{29,00,000}{25}$$

= 1,16,000 shares

iii) Debt / Equity Ratio Test

(a) Total Debt (Sec (+) Unsec (+) Curr Liab) 1,20,00,000

(b) Min. Eq Post BB (1.2x / 2) 60,00,000

(c) Present Equity (Paid up + F.R) 1,16,00,000

(d) Max. Amt Available for B.B (Refer W.N) 40,00,000

(e) Max No. of shares that can be bought back $\left(\frac{40,00,000}{25} \right)$ 1,60,000 shares

W.N

Let the Amt Hf to CRR be x

Let Max. Amt Avail for BB be y

$$1,16,00,000 - x - y = 60,00,000 \longrightarrow \textcircled{1}$$

$$\frac{4}{25} \times 10 = x$$

$$y = 2.5x \longrightarrow \textcircled{ii}$$

$$1,16,00,000 - x - 2.5x = 60,00,000$$

$$56,00,000 = 3.5x$$

$$\therefore x = 16,00,000 \rightarrow \text{Amt ttf to CRR}$$

$$y = 2.5x$$

$$= 2.5 \times 16,00,000$$

$$= 40,00,000 \rightarrow \text{Max Amt available for BB.}$$

Conclusion: least of above 3 test is 1,00,000 shares

$\therefore$ BB of 80,000 shares by Co. is within the prov. of Co. Act, 2013

Note: Curr Liab is considered to be part of total debt. Alternatively we can also solve by not considering it.

Q14 (LOR)

Maximum No. of shares that can be bought back. (3 Test)

i) Share outstanding test (Same in All 3 cases)

88 crore shares $\times$ 25%.

8.25 crore
shares.

ii) Resource Test (Same in All 3 cases)

$\frac{\text{Paid up Cap} + \text{Free Reserves}}{\text{BB Price}} \times 25\%$

BB Price

$$\frac{(330 + 240 + 90 + 90) \times 25\%}{₹ 30} = ₹ 187.5 \text{ cr}$$

6.25 crore
shares

iii) Debt/Equity Ratio Test

Particulars	Loan Funds		
	Case I	Case II	Case III
a) Total Debt (Loan funds)	₹ 1800	₹ 1200	₹ 1500
b) Min Eq Post BB (Total Debt $\div$ 2)	900	600	750
c) Present Eq (Paid up Cap + F.R)	750	750	750
d) Max. Amount Available for B.B.	- (No BB is possible as present eq is already lower than min. eq.)	112.5 (WN)	- (No BB possible as present eq is same as min. eq.)

e) Max No. of shares that can be bought back $\left(\frac{\text{Max Amt}}{\text{B.B Price}} \right)$

$$\frac{375 \text{ cr shares}}{\left(\frac{112.5}{30} \right)}$$

con let the Amt ttf to CRR be x

let the max Amt available for BB be y .

$$750 - x - y = 600 \longrightarrow i)$$

$$\frac{y}{30} \times 10 = x$$

$$y = 3x \longrightarrow ii)$$

$$750 - x - 3x = 600$$

$$150 = 4x$$

$$\therefore x = 37.5 \longrightarrow \text{Amt ttf to CRR}$$

$$y = 3x$$

$$3 \times 37.5$$

$$= 112.5 \longrightarrow \text{max Amt available for B.B.}$$

Shortcut	
Present Eq	750
Min Eq	600
	150
	$\div$ 40
BB max No. of share	3.75 cr share.

$\swarrow$ BB 30
 $\searrow$ CRR 10

Note: Under case I to III, the company does not qualify for B.B of shares as per the provisions of Co. Act, 2013.

In case II, Max NO. of shares that can be bought back is least of above 3 test i.e. 375 cr shares.

Journal entry (under case II)

i) Esc Dr 375 (375 x 10)

Prem on B.B Dr 75 (375 x 20)

To Eq Sh. B.B Ac 112.5

Eq Sh. B.B. Ac 112.5

To CIB 112.5

Sec Prem Ac Dr 75

To Prem on B.B. 75

Gen. Res Ac Dr 37.5

To CRP 37.5

Q16 (LOR)²

I] Redemp of Pref

a) PSC 240
 Prem on Redemptⁿ 24
 To PSH 264

b) PSH 264
 To CLB 264

c) Sec. Prem 24
 To Prem on Redemptⁿ 24

d) Gen. Reserve 240
 To CRR 240

} @ Fair value.

Flow of the ques

1st Apr → Pref Red.

2nd Apr → Eq BB

- 3 Test

- Pass J-E

2nd Apr → Deb Cancel

4th April - Bonus

* Revised value of Free Reserves (Post Pref Redemptⁿ)

1) Gen. Reserve = $625 - 240 = 385$

2) Sec. Prem = $52 - 24 = 28$

3) Profit & loss = 148

Calculation of Max No. of shares that can be bought back

1) Share outstanding test

$$78 \text{ lakh shares} \times 25\%$$

19.5 lakh shares

2) Resource test

$$\frac{(\text{Paid up Cap} + \text{Free Reserves}) \times 25\%}{\text{BB Price}} = \frac{(780 + 385 + 28 + 148) \times 25\%}{30}$$

$$= \frac{335.25}{30}$$

11.175 lakh shares

$$= 11.175 \text{ lakh shares}$$

3) Debt/Eq. Ratio Test

$$\text{a) Total Debt } (268 + 36 + 395) \quad 699$$

$$\text{b) Min. Eq Post BB} \quad 349.5$$

$$\text{c) Present Eq } (780 + 385 + 28 + 148) \quad 1341$$

$$\text{d) Max Amt available for BB (WN)} \quad 743.625$$

$$\text{e) Max No. of shares that can be bought Back} \quad 24.7875 \text{ lakh shares}$$

$$\left(\frac{\text{Max Amt}}{\text{BB Price}} \right) \left(\frac{743.625}{30} \right)$$

con let the Amt left to PRR be x

let the Max Amt available for BB be y .

$$1341 - x - y = 349.5 \quad \longrightarrow \quad \textcircled{i}$$

$$\frac{y}{30} \times 10 = x \quad \therefore y = 3x \quad \longrightarrow \quad \textcircled{ii}$$

30

$$1341 - x - 3x = 349.5$$

$$991.5 = 4x$$

$$\therefore x = 247.875 \longrightarrow \text{Amt t/f to CRR}$$

$$y = 3x$$

$$= 3 \times 247.875$$

$$= 743.625 \longrightarrow \text{Max Amt available for BB}$$

shortcut

Present Eq	1341
Min Eq	349.5
	991.5
	$\div 40$
	24.7875 lakh shares.

BB 30
CRR 10

Max. No. of shares that can be bought back is least of above 3 test
i.e. 11.175 lakh shares.

Q.E. B.B of Eq

a) Esc	Dr	111.75	(11.175 lakh shares x 10)
Prem on BB Dr.		223.5	(————— x 20)
To Eq Sh. B.B Ac		335.25	

b) Eq Sh. B.B Ac	Dr	335.25
To clB Ac		335.25

(c) Sec. Prem Alc Dr 28 → only this much Bal was left

Gen. Reserve Alc Dr 195.5

TO Prem on BB 223.5

(d) Gen Reserve 111.75

TO CRK 111.75

III] Deb cancel

Deb Wob Alc Dr 75L (@ Face value)

TO Invest in Own Deb 60L (@ cost)

TO Profit on cancellⁿ 15L
(Cap. Resc)

IV] Bonus (78 lakh share (→ 11.175 shares) = 66.825 lakh shares × $\frac{1}{5}$)
BB

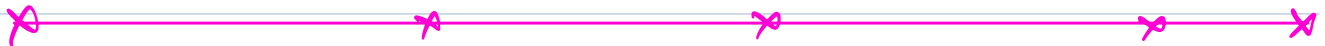
CRK 133.65

TO Bonus shares 133.65

= 13.365 lakh shares (Bonus)
@ Face value.

Bonus shares 133.65

TO Fsc 133.65



$$\text{EPS (Earnings per share)} = \frac{\text{Total Profit}}{\text{No. of shares}} = \frac{10\text{L}}{1\text{L}} = \text{₹10 per share.}$$

10K share BB

$$= \frac{10\text{L}}{90\text{K share}} = \text{₹11.11 per share.}$$

1. INTRODUCTION

Buy-back of shares means purchase of its own shares by a company. When shares are bought back by a company, they have to be cancelled by the company. Thus, shares buy-back results in decrease in share capital of the company. A company cannot buy its own shares for the purpose of investment. A company having sufficient cash may decide to buy-back its own shares. The following may be the objectives/advantages of Buy-back of shares:

- to increase earnings per share if there is no dilution in company's earnings as the buy-back of shares reduces the outstanding number of shares.
- to increase promoters holding as the shares which are bought back are cancelled.
- to discourage others to make hostile bid to take over the company as the buy-back will increase the promoters holding.
- to support the share price on the stock exchanges when the share price, in the opinion of company management, is less than its worth, especially in the depressed market.
- to pay surplus cash to shareholders when the company does not need it for business.

BB virtual
AM
1L90K
AK 75K
Shares.
83.33%BBSin
Arjun
SK 50K
SK 50K25K
Shares
(10K
Share
BB)= 15K
Shares
= 16.67%

The Companies Act, 2013 under Section 68 (1) permits companies to buy-back their own shares and other specified securities out of:

- its free reserves; or
- the securities premium account; or
- the proceeds of the issue of any shares or other specified securities.

Note: No buy-back of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities. For example, if equity shares are to be bought-back, then, preference shares may be used for the purpose.

The other important provisions relating to the buy-back are:

- Section 68 (2) further states that no company shall purchase its own shares or other specified securities unless—

Daksh

80%

BB virtual

AK 20% BB 20% SK 20% AC 20% AM 20%

10% - 10% - 10% - 10%
ready

BUY-BACK OF SECURITIES

12.3

- (a) the buy-back is authorised by its articles;
- (b) a special resolution has been passed in general meeting of the company authorising the buy-back;

However, the above provisions do not apply where the buy-back is ten percent or less of the paid-up equity capital + free reserves and is authorized by a board resolution passed at a duly convened meeting of the directors. Hence, in case the buy-back is up to 10% of paid up equity + free reserves, the same may be done with the authorization of the Board Resolution without the necessity of its being authorized by the articles of association of the company and by a special resolution of its members passed at a general meeting of the company.

- least
- (c) the buy-back must be equal or less than twenty-five per cent of the total paid-up capital and free reserves of the company: (Resource Test) ✓
 - (d) Further, the buy-back of shares in any financial year must not exceed 25% of its total paid-up capital and free reserves: (Share Outstanding Test) ✓
 - (e) the ratio of the debt owed by the company (both secured and unsecured) after such buy-back is not more than twice the total of its paid-up capital and its free reserves: (Debt-Equity Ratio Test) ✓

Note: Central Government may prescribe a higher ratio of the debt than that specified under this clause for a class or classes of companies. Debt here should include both long-term debt as well as short term debt.

- (f) all the shares or other specified securities for buy-back are fully paid-up;
- (g) the buy-back of the shares or other specified securities listed on any recognised stock exchange is in accordance with the regulations made by the Securities and Exchange Board of India in this behalf;
- (h) the buy-back in respect of shares or other specified securities other than those specified in clause (f) is in accordance with the guidelines as may be prescribed.

Provided that no offer of the buy-back under this sub section shall be made within a period of one year reckoned from the date of closure of a previous offer of buy-back if any. This means that there cannot be more than one buy-back in one year.

- (2) The notice of meeting at which special resolution is supposed to be passed must be accompanied by an explanatory statement stating-
 - (a) a full and complete disclosure of all material facts;
 - (b) the necessity of the buy-back;
 - (c) the class of security intended to be purchased under the buy-back;
 - (d) the amount to be invested under the buy-back;
 - (e) the time limit for completion of the buy-back.
- (3) Every buy-back shall be completed within twelve months from the date of passing the special resolution, or the resolution passed by the board of directors.
- (4) The buy-back may be—
 - (a) from the existing security holders on a proportionate basis; or
 - (b) from the open market; or
 - (c) by purchasing the securities issued to employees of the company pursuant to a scheme of stock option or sweat equity.
- (5) Where a company has passed a special resolution under clause (b) of Sub-section (2) to buy-back its own shares or other securities under this section, it shall, before making such buy-back, file with the Registrar and the Securities and Exchange Board of India a declaration of solvency in the form as may be prescribed and verified by an affidavit to the effect that the Board of Directors has made a full inquiry into the affairs of the company as a result of which they have formed an opinion that it is capable of meeting its liabilities and will not be rendered insolvent within a period of one year of the date of declaration adopted by the Board of Directors. It must be signed by at least two directors of the company, one of whom shall be the managing director, if any:

Note: No declaration of solvency shall be filed with the Securities and Exchange Board of India by a company whose shares are not listed on any recognised stock exchange.

- (6) Where a company buys-back its own securities, it shall extinguish and physically destroy the securities so bought-back within seven days of the last date of completion of buy-back.
- (7) Where a company completes a buy-back of its shares or other specified securities under this section, it shall not make further issue of same kind of shares (including allotment of further shares under clause (a) of Sub-section (1) of Section (62) or other specified securities within a period of six months except by way of bonus issue or in the discharge of subsisting obligations such as conversion of warrants, stock option scheme, sweat equity or conversion of preference shares or debentures into equity shares.
- (8) Where a company buy-back its securities under this section, it shall maintain a register of the securities so bought, the consideration paid for the securities bought-back, the date of cancellation of securities, the date of extinguishing and physically destroying of securities and such other particulars as may be prescribed.
- (9) A company shall, after the completion of the buy-back under this section, file with the Registrar and the Securities and Exchange Board of India, a return containing such particulars relating to the buy-back within thirty days of such completion, as may be prescribed, provided that no return shall be filed with the Securities and Exchange Board of India by a company whose shares are not listed on any recognised stock exchange.
- (10) If a company makes default in complying with the provisions of this section or any regulations made by SEBI in this regard, the company may be punishable with a fine which shall not be less than Rs One Lakh but which may extend to three lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for upto 3 years or with a fine of not less than one lakh rupees but which may extend to three lakh rupees or with both.
- (11) Section 69 (1) states that where a company purchases its own shares out of the free reserves or securities premium account, a sum equal to the nominal value of shares so purchased shall be transferred to the Capital Redemption

Reserve Account

