

1

BUYBACK OF SECURITIES AND EQUITY SHARES WITH DIFFERENTIAL RIGHTS

INDEX

S.NO.	TOPIC	PG.NO.	No. Of. Questions
SECTION A - CONCEPT			
1	<i>Important Conditions for Buyback of Equity Shares</i>	1.2	
2	<i>Some Important provisions</i>	1.2	
3	<i>Journal Entries for Buyback of Securities</i>	1.3	
4	<i>How to Calculate Maximum Permissible Buyback</i>	1.4	3
5	<i>Equity Share with Differential Rights</i>	1.6	1
SECTION B - QUESTIONS			
	<i>Series 100 – Basic Level Questions on Buyback</i>	1.7	3
	<i>Series 200 – High Level Questions on Buyback</i>	1.10	25
	<i>Series 300 – Questions on Differential Rights</i>	1.66	3

SECTION A – CONCEPTS

1. IMPORTANT CONDITIONS FOR BUYBACK OF EQUITY SHARES:

- Buy back must be authorized by *Articles of Association* of the company.
- *Special Resolution* has been passed in the *GM* of the company authorizing the buy back. However, Board of Directors can also authorized the buyback by passing Board resolution if buyback is *equal to or less than 10%* of the paid up capital of the company.
- Buy back of equity share in any financial year shall not exceed *25%* of the total paid up capital of that equity share.
- *Aggregate buyback of equity shares shall not exceed 25%* of total paid up capital and free reserves of the company,
- Debt Equity ratio *should not exceed 2:1* after such buy back.
- Equity shares must be fully paid.
- Buy back process must be completed within 12 months from the date of passing special resolution.

2. SOME IMPORTANT PROVISIONS:

- (1) There are three sources of Funds for Buy Back of Equity shares:
 - Out of *Free Reserves*;
 - Out of *Securities Premium*; or
 - Out of the *proceeds of any Fresh issue* of shares or other specified securities.
- (2) Free Reserves includes:
 - General Reserve
 - P&L account (Cr. Balance)
 - Security Premium a/c
 - It does not include Capital Reserve, Share application a/c and revaluation reserves.
- (3) Where a company purchases its own shares out of free reserves and Securities premium account, then a *sum equal to the nominal value* of the shares so bought back shall be transferred to the 'Capital Redemption Reserve Account' out of Free Reserves.
- (4) Premium payable on buy-back can be set off against Security Premium a/c if any; otherwise it would be set off against Revenue Reserve.
- (5) Capital Redemption Reserve can be utilized only for issuing Bonus shares to members.

3. JOURNAL ENTRIES FOR BUYBACK OF SECURITIES:

<i>On Announcement of Buyback</i>	Equity Share Capital A/c Premium Payable on Buy-Back A/c To Equity Shares Buy-back A/c (Buyback Value)	Dr. (Face Value) Dr.
<i>On Payment to Shareholders</i>	Equity Shares Buy-back A/c To Bank A/c	Dr.
<i>Writing off Premium on Buy-back</i>	Security Premium A/c Revenue Reserves To Premium Payable on Buyback a/c	Dr. (1 st Priority) Dr. (Gen. Reserve and P&L)
<i>Transfer to CRR (Equal to Nominal Value)</i>	Revenue Reserve Security Premium A/c To Capital Redemption Reserve	Dr. (Gen. Reserve and P&L A/c) Dr.
<i>On Fresh issue of other securities such as Pref. Shares</i>	Bank A/c To Pref. Share Capital A/c To Security Premium A/c	Dr.
<i>On sale of Investment for the purpose of Buy-back</i>	Bank A/c To Investment A/c (Gain or Loss on sale transfer to P&L A/c)	Dr.
<i>On Issue of Bonus Shares out of CRR and Other Free Res.</i>	Capital Redemption Reserve Revenue Reserves To Bonus Shares A/c Bonus Shares A/c To Equity Share Capital A/c	Dr. (1 st Priority if available) Dr. (Gen. Res and P&L) Dr.

4. HOW TO CALCULATE MAXIMUM PERMISSIBLE BUYBACK

Here we need to conduct three important Tests for calculating Maximum permissible Buyback in accordance with Companies Act, 2013. These Tests are:

1. **Share Outstanding Test:** Maximum no. of buyback should not exceed 25% of total Outstanding Equity Shares immediately before buyback.
2. **Resource Test:** Maximum Amount of Buyback should not exceed 25% of Total Equity Paid up capital plus Free Reserves including Securities premium.
3. **Debt Equity Test:** After the Buyback of Equity, Debt-Equity Ratio should not exceed 2:1. (Here equity means ESC + PSC + Free Reserves)

EXAMPLE 1: -

Outstanding Equity Share Capital (10/- each)	35,00,000
General Reserve	25,00,000
Profit & Loss Balance	11,50,000
Securities Premium	17,50,000
Debentures	60,00,000
Bank Loan (Non-Current Liability)	70,00,000
Current Maturity of Bank Loan	15,00,000
Sundry Creditors	25,00,000
Investment allowance Reserve	10,00,000

SOLUTION:

(1) Shares outstanding Test: -

Total Outstanding No. of Equity Shares x 25%
 $3,50,000 \times 25\% = 87,500 \text{ No.}$

(2) Resources Test: -

(Total Paid-up Capital + Free Reserve) x 25% = Maximum Amount of Buyback
 $89,00,000 \times 25\% = 22,25,000/-$
 Therefore, Maximum No. of Buyback = $22,25,000/25 = 89,000 \text{ no.}$

(3) Debt Equity Test: -

Debt Equity Ratio should not exceed 2:1 after Buyback

Debt (after buyback) = 1,45,00,000

Equity after Buyback Should be = $1,45,00,000 / 2 = 72,50,000$

Current Equity - Buyback effect = Equity after Buyback

Assume No. of shares to be bought back is X

Therefore, Buyback Effect = Face Value (10X) + Premium on BB (15x) + CRR to be Created equal to FV out of FR (10X) = 35X

$89,00,000 - 35x = 72,50,000$

$x = 47,142 \text{ No.}$



Note: for the purpose of this chapter, equity means Share Capital + Free reserves + Securities Premium
(Capital Redemption Reserve will not be a part of Equity)

Conclusion: Hence Final No. of Shares to be bought back should not be more than 47142 No. (whichever is lower in above three tests)

EXAMPLE 2: -

Continuing the Example 1 with additional information:

There are preference share Capital also of Rs. 30,00,000 (100/- each)

SOLUTION:

(1) Shares outstanding Test: -

Total Outstanding No. of Equity Shares x 25%

$$3,50,000 \times 25\% = 87,500 \text{ No.}$$

(2) Resources Test: -

(Total Paid-up Capital + Free Reserve + Preference Share Capital) x 25% = Maximum Amount of Buyback

$$1,19,00,000 \times 25\% = 29,75,000/-$$

Therefore, Maximum No. of Buyback = $29,75,000/25 = 1,19,000 \text{ no.}$

(3) Debt Equity Ratio:-

Debt (after buyback) = 1,45,00,000

Equity after Buyback Should be = $1,45,00,000 / 2 = 72,50,000$

Current Equity - Buyback effect = Equity after Buyback

$$1,19,00,000 - 35x = 72,50,000$$

$$x = 1,32,857 \text{ no.}$$

Note: Current Equity here should include the Preference Share Capital also.

EXAMPLE 3: -

Same as Example 1 but with additional information

Entity decide to issue Preference share Capital of Rs. 10,00,000 for the purpose of Buyback

Remaining out of free reserve.

SOLUTION:

Buyback Price x No of Buyback which is assumed as Y

$$25 \times Y = 25Y$$

1) Face Value Portion of BB = 10Y

Out of Fresh Issue = 10,00,000

Out of CRR (10Y - 10,00,000)

2) Premium Portion of BB = 15Y

Current Equity +/- Buyback Effect = Equity after Buyback

$$89,00,000 - [(10Y - 15Y - (10Y - 10,00,000))] + 10,00,000 = 72,50,000$$

$$89,00,000 - 25Y - 10Y + 10,00,000 + 10,00,000 = 72,50,000$$

$$89,00,000 - 35Y + 20,00,000 = 72,50,000$$

$$Y = 36,50,000/35 = 1,04,285 \text{ No.}$$



5. EQUITY SHARE WITH DIFFERENTIAL RIGHTS

1. The Companies Act, 2013 (Sec 43 a) defines equity share capital to include of two types viz.,
 - a) With voting rights; or
 - b) With differential rights as to dividend, voting or otherwise in accordance with such rules as may be prescribed
2. Hence, differentiation can be done by giving superior dividend / Superior voting right/ diluted voting right to a class of equity shareholder.
3. It must be appreciated that preference shares are not issued with differential rights. It is only the equity shares, which are issued.
4. Normally, the blanket rule in Companies Act is **one share-one vote**. This gives equal voting right to every shareholder.
5. However, sometime a segment of shareholders, normally promoters and executive management may like to have more control over decision-making process.
6. This intention of shareholders / management can be activated if they have more voting rights, even if they hold fewer shares. This can be structured by giving them shares with superior voting rights. This is enabled by section 43(a)(ii) in the form of equity shares with differential rights.
7. It is provided further that where the dividend in respect of a class of preference shares has not been paid for a period of two years or more, such class of preference shareholders shall have a right to vote on **all the resolutions** placed before the company.
8. It is further provided that the proportion of the voting rights of equity shareholders to the voting rights of the preference shareholders shall be in the same proportion as the paid-up capital in respect of the equity shares bears to the paid-up capital in respect of the preference shares.
9. The members are not entitled to voting rights in respect of money not called up by the company, but voluntarily paid by the member.
10. The shares with differential rights shall not exceed **twenty-six percent** of the total post-issue paid up equity share capital including equity shares with differential rights issued at any point of time;
11. It is further clarified that the company shall not convert its existing equity share capital with voting rights into equity share capital carrying differential voting rights and vice-versa.

EXAMPLE 4: -

Equity capital is held by X, Y and Z in the proportion of 40:40:20. A, B and C hold preference share capital in the proportion of 50:30:20. If the paid up equity share capital of the company is 1 Crore and Preference share capital is ₹ 50 Lakh, then relative weight in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3. The respective voting right of various shareholders will be

$$X = \frac{2}{3} \times \frac{40}{100} = \frac{4}{15}$$

$$Y = \frac{2}{3} \times \frac{40}{100} = \frac{4}{15}$$

$$Z = \frac{2}{3} \times \frac{20}{100} = \frac{2}{15}$$

$$A = \frac{1}{3} \times \frac{50}{100} = \frac{1}{6}$$

$$B = \frac{1}{3} \times \frac{30}{100} = \frac{1}{10}$$

$$C = \frac{1}{3} \times \frac{20}{100} = \frac{2}{30}$$

Hence their relative weights are 4/15:4/15:1/15:1/6:1/10:2/30 or 8:8:4:5:3:2.

Their voting power is X (26.67%), Y (26.67%), Z (13.33%), A (16.67%), B (10%) and C (6.67%).



SECTION B – QUESTIONS

(Total No. of Questions – 31)

SERIES 100**BASIC LEVEL QUESTIONS ON BUYBACK****Q.BB.RMP.101: (RTP Nov22)**

Umesh Ltd. resolves to buy back 4 lakhs of its fully paid equity shares of Rs. 10 each at Rs. 22 per share. This buyback is in compliance with the provisions of the Companies Act and does not exceed 25% of Company's paid-up capital in the financial year. For the purpose, it issues 1 lakh 11 % preference shares of Rs. 10 each at par, the entire amount being payable with applications. The company uses Rs. 16 lakhs of its balance in Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back. Give necessary journal entries to record the above transactions.

**SOLUTION****Journal Entries in the books of Umesh Ltd.**

			Rs.	Rs.
1.	Bank A/c To 11% Preference share application & allotment A/c (Being receipt of application money on preference shares)	Dr.	10,00,000	10,00,000
2.	11% Preference share application & allotment A/c To 11% Preference share capital A/c (Being allotment of 1 lakh preference shares)	Dr.	10,00,000	10,00,000
3.	General reserve A/c To Capital redemption reserve A/c (Being creation of capital redemption reserve for buy back of shares)	Dr.	30,00,000	30,00,000
4.	Equity share capital A/c Premium payable on buyback A/c To Equity shareholders/Equity shares buy back A/c (Amount payable to equity shareholder on buy back)	Dr. Dr.	40,00,000 48,00,000	88,00,000
5.	Equity shareholders/ Equity shares buy back A/c To Bank A/c (Being payment made for buy back of shares)	Dr.	88,00,000	88,00,000
6.	Securities Premium A/c General reserve A/c To Premium payable on buyback A/c (Being premium on buyback charged from securities premium and general reserve)	Dr. Dr.	16,00,000 32,00,000	48,00,000

Working Notes:

1. Calculation of amount used from General Reserve Account

	Rs.
Amount paid for buy back of shares (4,00,000 shares x Rs. 22)	88,00,000
Less: Proceeds from issue of Preference Shares (1,00,000 shares x Rs.10)	(10,00,000)
Less: Utilization of Securities Premium Account	(16,00,000)
Balance used from General Reserve Account	62,00,000
* Used under Section 68 for buy back	32,00,000
Used under Section 69 for transfer to CRR (W.N 2)	30,00,000
	62,00,000

2. Amount to be transferred to Capital Redemption Reserve account

	Rs.
Nominal value of shares bought back (4,00,000 shares x Rs.10)	40,00,000
Less: Nominal value of Preference Shares issued for such buy back (1,00,000 shares x Rs.10)	(10,00,000)
Amount transferred to Capital Redemption Reserve Account	30,00,000

Q.BB.RMP.102: (EXAM Jan21)

The Directors of Umang Ltd. passed a resolution to buyback 5,00,000 of its fully paid equity shares of Rs. 10 each at Rs. 15 per share. This buyback is in compliance with the provisions of the Companies Act, 2013.

For this purpose, the company

- Sold its investments of Rs. 30,00,000 for Rs. 25,00,000.
- Issued 20,000, 12% preference shares of Rs. 100 each at par, the entire amount being payable with application.
- Used Rs. 15,00,000 of its Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back.
- The company has necessary cash balance for the payment to shareholders.

You are required to pass necessary Journal Entries (including narration) regarding Buy-back of shares in the books of Umang Ltd.

SOLUTION*Journal Entries in the books of Umang Ltd.*

		Dr. Rs.	Cr. Rs.
1.	Bank A/c Profit and Loss A/c To Investment A/c (Being investment sold for the purpose of buy-back of Equity Shares)	Dr. 25,00,000 Dr. 5,00,000	30,00,000

2.	Bank A/c To 12% Pref. Share capital A/c (Being 12% Pref. Shares issued for Rs. 20,00,000)	Dr.	20,00,000	20,00,000
3.	Equity share capital A/c Premium payable on buy-back To Equity shares buy-back A/c/ Equity shareholders A/c (Being the amount due on buy-back of equity shares)	Dr. Dr.	50,00,000 25,00,000	75,00,000
4.	Equity shares buy-back A/c/ Equity shareholders A/c To Bank A/c (Being payment made for buy-back of equity shares)	Dr.	75,00,000	75,00,000
5.	Securities Premium A/c General Reserve A/c To Premium payable on buy-back (Being premium payable on buy-back charged from Securities premium)	Dr. Dr.	15,00,000 10,00,000	25,00,000
6.	General Reserve A/c To Capital Redemption Reserve A/c (Being creation of capital redemption reserve to the extent of the equity shares bought back after deducting fresh pref. shares issued)	Dr.	30,00,000	30,00,000

Q.BB.OM.103:

Jayesh Ltd. provides you the following information:

- Issued capital:** 2,50,000 equity shares of 10/- each
2,000, 10% Preference shares of 100/- each (Issued two months back for the purpose of buy-back)
- Reserves and Surplus:** Capital Reserve – 10,00,000/-
Securities Premium – 22,00,000/-
Revenue Reserve – 30,00,000/-
Profit & Loss A/c – 40,00,000/-
- Resolution passed to buy back** 20% of its equity capital @ 50/- per share.

Required: Pass journal entries to record the above transactions.



SERIES 200HIGH LEVEL QUESTIONS ON BUYBACKQ.BB.SM.201:

M Ltd. furnishes the following Balance Sheet as at 31st March, 20X1:

Particulars		Notes	₹ (in 000)
	Equity and Liabilities		
1	Shareholders' funds		
A	Share capital	1	5,000
B	Reserves and Surplus	2	6,310
2	Non-current liabilities		
	Long term borrowings	3	400
3	Current liabilities		
A	Trade Payables		40
	Total		11,750
	Assets		
1	Non-current assets		
A	Property, plant and Equipment	4	2,750
B	Non-Current Investments (at cost)		5,000
2	Current assets		
A	Inventories		1,000
B	Trade receivables		2,000
C	Cash and Cash equivalents		1,000
	Total		11,750

Notes to accounts

No.	Particulars	₹ in ('000)
1	Share Capital	
	Authorized, Issued and Subscribed Capital:	
	3,00,000 Equity shares of ₹ 10 each fully paid up	3,000
	20,000 9% Preference Shares of 100 each	2,000
	Total	5,000
2	Reserves and Surplus	
	Capital reserve	10
	Revenue reserve	4,000
	Securities premium	500

	Profit and Loss account	1,800
	Total	6,310
3	Long term borrowings	
	10% Debentures	400
4	Property, Plant and Equipment (PPE)	
	PPE: Cost	3,000
	Less: Provision for depreciation	(250)
	Net carrying value	2,750

The company passed a resolution to buy-back 20% of its equity capital @ ₹ 15 per share. For this purpose, it sold its investments of ₹30 lakhs for ₹ 25 lakhs.

You are required to pass necessary Journal entries.

SOLUTION

Journal Entries in the books of M Ltd.

₹ in '000

	Particulars	Dr.	Cr.
1.	Bank A/c	Dr. 2,500	
	Profit and Loss A/c	Dr. 500	
	To Investment A/c		3,000
	(Being investment sold for the purpose of buy-back of Equity Shares)		
2.	Equity share capital A/c	Dr. 600	
	Premium payable on buy-back	Dr. 300	
	To Equity shares buy-back A/c		900
	(Being the amount due on buy-back of equity shares)		
3.	Equity shares buy-back A/c	Dr. 900	
	To Bank A/c		900
	(Being payment made for buy-back of equity shares)		
4.	Securities Premium A/c	Dr. 300	
	To Premium payable on buy-back		300
	(Being premium payable on buy-back charged from Securities premium)		
5.	Revenue reserve A/c	Dr. 600	
	To Capital Redemption Reserve A/c		600
	(Being creation of capital redemption reserve to the extent of the equity shares bought back)		

Q.BB.SM.202:

Dee Limited (a non-listed company) furnishes the following Balance Sheet as at 31st March, 20X1:



(₹ in thousand)

Particulars		Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
A	Share capital	1	2,700
B	Reserves and Surplus	2	9,700
2	Current liabilities		
A	Trade Payables		1,400
	Total		13,800
	Assets		
1	Non-current assets		
A	Property, plant and Equipment		9,300
B	Non-Current Investments		3,000
2	Current assets		
A	Inventories		500
B	Trade receivables		200
C	Cash and Cash equivalents		800
	Total		13,800

Notes to accounts

No.	Particulars	₹
1	Share Capital	
	Authorized, issued and subscribed capital:	
	2,50,000 Equity shares of ₹ 10 each fully paid up	2,500
	2,000, 10% Preference shares of ₹ 100 each (Issued two months back for the purpose of buy-back)	200
	Total	2,700
2	Reserves and Surplus	
	Capital reserve	1,000
	Revenue reserve	3,000
	Securities premium	2,200
	Profit and loss account	3,500
	Total	9,700

The company passed a resolution to buy-back 20% of its equity capital @ ₹ 50 per share. For this purpose, it sold all of its investment for ₹ 22,00,000.

You are required to pass necessary journal entries and prepare the Balance Sheet.

SOLUTION**Journal Entries in the books of Dee Limited****(₹ in thousand)**

Particulars		Dr.	Cr.
(i)	Bank Account Profit and Loss Account To Investment Account (Being the investments sold at loss for the purpose of buy-back)	Dr. 2,200 Dr. 800	3,000
(ii)	Equity Share buy-back Account To Bank Account (Being the payment made on buy-back)	Dr. 2,500	2,500
(iii)	Equity Share Capital Account Premium Payable on Buy-Back Account To Equity Shares Buy-Back Account (Being the buy-back amount allocated to equity share capital)	Dr. 500 Dr. 2,000	2,500
(iv)	Securities premium Account To Premium payable on buy-back Account (Being the premium payable on buy-back adjusted against securities premium account)	Dr. 2,000	2,000
(v)	Revenue reserve Account To Capital Redemption Reserve Account (Being the amount equal to nominal value of equity shares bought back out of free reserves transferred to capital redemption reserve account)	Dr. 300	300

Balance Sheet of Dee Limited as at 1st April, 20X1 (After buy-back of shares)**(₹ in thousand)**

Particulars		Notes	₹
Equity and Liabilities			
1	Shareholders' funds		
A	Share capital	1	2,200
B	Reserves and Surplus	2	6,900
2	Current liabilities		
A	Trade Payables		1,400
	Total		10,500
Assets			
1	Non-current assets		

	A	Property, plant and Equipment		9,300
2		Current assets		
	A	Inventories		500
	B	Trade receivables		200
	C	Cash and Cash equivalents		500
		Total		10,500

Notes to accounts

No.	Particulars		₹
1	Share Capital		
	Authorized, issued and subscribed capital:		
	2,50,000 Equity shares of ₹ 10 each fully paid up		2,000
	2,000, 10% Preference shares of ₹ 100 each (Issued two months back for the purpose of buy- back)		200
	Total		2,200
2	Reserves and Surplus		
	Capital reserve		1,000
	Capital redemption reserve		300
	Securities Premium	2,200	
	Less: Premium payable on buy-back of shares	(2,000)	200
	Revenue reserve	3,000	
	Less: Transfer to Capital redemption reserve	(300)	2,700
	Profit and loss A/c	3,500	
	Less: Loss on investment	(800)	2,700
	Total		6,900

Q.BB.RMP.203: (RTP Nov18)

The following summarized Balance Sheet Pee Limited (a non-listed company) furnishes as at 31st March, 2017:

	Rs	Rs
Equity & Liabilities		
Share capital:		
Authorised capital		
2,50,000 Equity shares of Rs 10 each fully paid up	25,00,000	
5,000, 10% Preference shares of Rs 100 each	5,00,000	30,00,000
Issued and subscribed capital:		
2,40,000 Equity shares of Rs 10 each fully paid up	24,00,000	
3,000, 10% Preference shares of Rs 100 each	3,00,000	27,00,000

<i>(Issued two months back for the purpose of buy back)</i>		
Reserves and surplus:		
Capital reserve	10,00,000	
Revenue reserve	25,00,000	
Securities premium	27,00,000	
Profit and loss account	35,00,000	97,00,000
Current liabilities		
Trade payables	13,00,000	
Other current Liabilities	3,00,000	16,00,000
		1,40,00,000
Assets		
Tangible assets		
Building	25,00,000	
Machinery	31,00,000	
furniture	20,00,000	76,00,000
Non-current Investments	30,00,000	
Current assets		
Inventory	12,00,000	
Trade receivables	7,00,000	
cash and bank balance	15,00,000	34,00,000
		1,40,00,000

On 1st April, 2017, the company passed a resolution to buy back 20% of its equity capital @ Rs 60 per share. For this purpose, it sold all of its investment for Rs 25,00,000. The company achieved its target of buy-back.

You are required to:

- Give necessary journal entries and
- Give the Balance Sheet of the company after buy back of shares.

SOLUTION

Journal Entries in the books of Pee Limited

Particulars		Dr.	Cr.
(i)	Bank Account Dr. Profit and Loss Account Dr. To Investment Account (Being the investments sold at loss for the purpose of buy back)	25,00,000 5,00,000	30,00,000
(ii)	Equity Share capital account Dr. Premium payable on buy back A/c Dr. To Equity shares buy back Account (Being the amount due on buy back)	4,80,000 24,00,000	28,80,000
(iii)	Securities Premium Account Dr. To Premium payable on buy back Account (Being the premium payable on buy back adjusted against securities premium account)	24,00,000	24,00,000

(iv)	Revenue Reserve Account To Capital Redemption Reserve Account (Being the amount equal to nominal value of equity shares bought back out of free reserves transferred to capital redemption reserve account (4,80,000-3,00,000))	Dr.	1,80,000	1,80,000
(v)	Equity shares buy-back Account To Bank Account (Being the payment made on buy back)	Dr.	28,80,000	28,00,000

Balance Sheet of Pee Limited as on 1st April, 2017
(After buy back of shares)

Particulars	Note No	(Rs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	22,20,000
(b) Reserves and Surplus	2	68,00,000
(2) Current Liabilities		16,00,000
Total		1,06,20,000
II. Assets		
(1) Non-current assets		
(a) Fixed assets		76,00,000
(2) Current assets		30,20,000
Total		1,06,20,000

Notes to Accounts

1	Share Capital	Rs	
	Authorised capital:	30,00,000	
	Issued and subscribed capital:		
	1,92,000 Equity shares of Rs 10 each fully paid up	19,20,000	
	3,000 10% Preference shares of Rs 100 each fully paid up	3,00,000	22,20,000
	Reconciliation of share capital Opening no. of shares	2,40,000	
	Buy back of shares during the year During the year the company has buy back of 48,000 shares	(48,000)	1,92,000
2	Reserves and Surplus		
	Capital reserve		10,00,000
	Capital redemption reserve		1,80,000
	Securities Premium	27,00,000	
	Less: Premium payable on buy back of shares	(24,00,000)	3,00,000
	Revenue reserve	25,00,000	
	Less: Transfer to Capital redemption reserve	(1,80,000)	23,20,000
	Profit and loss A/c	35,00,000	

Less: Loss on investment	(5,00,000)	30,00,000
		68,00,000

Q.BB.RMP.204: (May19 RTP) (EXAM Nov22)

Alpha Limited furnishes the following summarized Balance Sheet as at 31st March, 2017:

Liabilities	(Rs. in lakhs)	Assets	(Rs. in lakhs)
Equity share capital (Fully paid-up shares of Rs. 10 each)	2,400	Machinery	3,600
Securities premium	350	Furniture	450
General reserve	530	Investment	148
Capital redemption reserve	400	Inventory	1,200
Profit & loss A/c	340	Trade receivables	500
12% Debentures	1,500	Cash at bank	1,500
Trade payables	1,400		
Other current liabilities	478		
	7,398		7,398

On 1st April, 2017, the company announced the buyback of 25% of its equity shares @ Rs. 15 per share. For this purpose, it sold all of its investments for Rs. 150 lakhs. On 5th April, 2017, the company achieved the target of buy back.

You are required to:

- (1) Pass necessary journal entries for the buy-back.
- (2) Prepare Balance Sheet of Alpha Limited after buy-back of the shares.

SOLUTION:

In the books of Alpha Limited

Journal Entries

(Rs. in Lakhs)

Date	Particulars	Dr.	Cr.
April 1	Bank Account To Investment Account To Profit and Loss Account (Being investment sold on profit)	Dr. 150	148 2
April 2	Equity Share capital account Securities premium A/c To Equity shares buy back Account (Being the amount due to equity shareholders on buy back)	Dr. Dr. 600 300	900
	Equity shares buy back A/c To bank A/c (Being the payment made on account of buyback of 60 Lakh Equity Shares)	Dr. 900	900
April 5	General reserve A/c Profit and Loss A/c To Capital redemption reserve A/c (Being amount equal to nominal value of bought back shares from free reserves transferred to capital redemption reserve account as per the law)	Dr. Dr. 530 70	600

Balance Sheet
(After buy back of shares)

Particulars	Note No	(Rs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1,800
(b) Reserves and Surplus	2	1,322
(2) Non-Current Liabilities		
(a) Long-term borrowings - 12% Debentures		1,500
(2) Current Liabilities		
(a) Trade payables		1,400
(b) Other current liabilities		478
Total		6,500
II. Assets		
(1) Non-current assets		
(a) Property, Plant & Equipment		
(i) Tangible assets	3	4,050
(2) Current assets		
(a) Current investments		
(b) Inventory		1,200
(c) Trade receivables		500
(d) Cash and cash equivalents (W.N.)		750
Total		6,500

Notes to Accounts

1	Share Capital		Rs in lakhs
	Equity share capital (Fully paid-up shares of Rs.10 each)		1800
2	Reserves and Surplus		
	General Reserve	530	
	Less: Transfer to CRR	<u>(530)</u>	-
	Capital redemption reserve	400	
	Add: Transfer due to buy-back of shares from P/L	70	
	Transfer due to buy-back of shares from Gen. res.	<u>530</u>	1,000
	Securities Premium	350	
	Less: Premium payable on buy back of shares	<u>(300)</u>	50
	Profit and loss A/c	340	
	Less: Transfer to CRR	<u>(70)</u>	<u>272</u>
			1,322
3	Tangible assets		
	Machinery	3,600	
	Furniture	<u>450</u>	4,050

Working Note:

Cash at bank after buy-back



	Rs. in lakhs
Cash balance as on 1st April, 2017	1,500
Add: Sale of investments	<u>150</u>
1,650	150
Less: Payment for buy back of shares	<u>(900)</u>
	750

Q.BB.RMP.205: (RTP May20)

The following was the Balance Sheet of C Ltd. as on 31st March, 2019:

Equity & Liabilities	Rs Lakhs	Assets	Rs Lakhs
Share Capital:		Fixed Assets	14,000
Equity shares of Rs 10 each Fully Paid Up	8,000	Investments	2,350
10% Redeemable Pref. Shares of Rs 10 each Fully Paid Up	2,500	Cash at Bank	2,300
Reserves & Surplus		Other Current Assets	8,250
Capital Redemption Reserve	1,000		
Securities Premium	800		
General Reserve	6,000		
Profit & Loss Account	300		
Secured Loans:			
9% Debentures	5,000		
Current Liabilities:			
Trade payables	2,300		
Sundry Provisions	<u>1,000</u>		
	<u>26,900</u>		<u>26,900</u>

On 1st April, 2019 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 10% of its Equity Shares at Rs 20 per Share. In order to make cash available, the Company sold all the Investments for Rs 2,500 lakhs.

You are required to pass journal entries for the above and prepare the Company's Balance sheet immediately after buyback of equity shares and redemption of preference shares.

SOLUTION:**Journal Entries in the books of C Ltd.****(Rs in lakhs)**

	Particulars			
1	Bank A/c To Investments A/c To Profit and Loss A/c (Being investment sold on profit for the purpose of buy-back)	Dr.	2,500	2,350 150
2	10% Redeemable Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being redemption of preference share capital at premium of 10%)	Dr. Dr.	2,500 250	2,750
3	Securities Premium A/c	Dr.	250	



	To Premium on Redemption of Preference Shares A/c (Being premium on redemption of preference shares adjusted through securities premium)			250
4	Equity Share Capital A/c Premium on buyback To Equity buy-back A/c (Being Equity Share bought back, Share Capital cancelled, and Premium on Buyback accounted for)	Dr. Dr.	800 800	1,600
5	Securities Premium A/c (800-250) General Reserve A/c To Premium on Buyback A/c (Being premium on buyback provided first out of securities premium and the balance out of general reserves.)	Dr. Dr.	550 250	800
6	Preference Shareholders A/c Equity buy-back A/c To Bank A/c (Being payment made to preference shareholders and equity shareholders)	Dr. Dr.	2,750 1,600	4,350
7	General Reserve Account To Capital Redemption Reserve Account (Being amount transferred to capital redemption reserve account towards face value of preference shares redeemed and equity shares bought back)	Dr.	3,300	3,300

Balance Sheet of C Ltd. (after Redemption and Buyback) (Rs Lakhs)

	Particulars	Note No	Amount (Rs.)
(1)	EQUITY AND LIABILITIES		
(1)	Shareholders' Funds:		
	(a) Share Capital	1	7,200
	(b) Reserves and Surplus	2	7,200
(2)	Non-Current Liabilities:		
	(a) Long Term Borrowings	3	5,000
(3)	Current Liabilities:		
	(a) Trade payables		2,300
	(b) Short Term Provisions		1,000
	Total		22,700
(11)	ASSETS		
(1)	Non-Current Assets		
	PPE		14,000
(2)	Current Assets:		
	(a) Cash and Cash equivalents (w N)		450
	(b) Other Current Assets		8,250
	Total		22,700

Notes to Accounts

		Rs in Lakhs		
1.	Share Capital			
	720 lakh Equity Shares of Rs 10 each Fully Paid up (80 lakh Equity Shares bought back)			7,200
2.	Reserves and Surplus			

	General Reserve	6,000		
	Less: Adjustment for premium paid on buy back	(250)		
	Less: Transfer to CRR	(3,300)	2,450	
	Capital Redemption Reserve	1,000		
	Add: Transfer due to buy-back of shares from Gen. res.	3,300	4,300	
	Securities premium	800		
	Less: Adjustment for premium paid on redemption of preference shares	(250)		
	Less: Adjustment for premium paid on buy back	(550)		
	Profit & Loss A/c	300		
	Add: Profit on sale of investment	150	450	7,200
3.	Long-term borrowings			
	Secured			
	9 % Debentures			5,000

Working Note:**Bank Account**

Receipts	Amount (Rs Lakhs)	Payments	Amount (Rs Lakhs)
To balance b/d	2,300	By Preference Shareholders A/c	2,750
To Investment A/c (sale Proceeds)	2,500	By Equity Shareholders A/c	1,600
		By Balance c/d (Balancing figure)	450
	4,800		4,800

Q.BB.RMP.206: (EXAM Nov22)

PG Limited furnishes the following Balance Sheet as at 31st March, 2022:

	Particulars	Notes	₹ (in Lakhs)
1.	Equity and Liabilities		
	Shareholders' funds		
	(a) Share Capital	1	12,000
	(b) Reserves and Surplus	2	8,100
2	Current liabilities		
	(a) Trade Payables		7,450
	(b) Other Current Liabilities		1,950
	Total		29,500
	Assets		
1	Non-current asset		
	(a) Property, Plant and Equipment		12,760
	(b) Non-current Investments		740
2	Current asset		
	(a) Inventories		6,000
	(b) Trade receivable		2,600
	(c) Cash and cash equivalents		7,400
	Total		29,500

Notes to accounts:

	Particulars	₹ (in Lakhs)
1	Share Capital	12,000
	Authorized, issued and subscribed capital	
	Equity share capital (fully paid up shares of ₹ 10 each)	
2	Reserves and Surplus	
	Securities premium General	1,750
	General reserve	2,650
	Capital redemption reserve	2,000
	Profit and Loss account	1,700
	Total	8,100

On 1st April, 2022, the company announced the buy-back of 25% of its Equity Shares @ ₹ 15 per share. For this purpose, it sold all of its investments for ₹ 750 lakhs.

On 5th April, 2022, the company achieved the target of buy-back. You are required to pass necessary journal entries for the above transactions.

SOLUTION

In the books of PG Limited

Journal Entries

Date	Particulars	Dr.	Cr.
2022			(₹ in lakhs)
April 1	Bank A/c	Dr.	750
	To Investment A/c		740
	To P&L A/c (Profit on sale of investment)		10
	(Being investment sold on profit)		
April 5	Equity share capital A/c	Dr.	3,000
	Premium payable on buy-back A/c	Dr.	1,500
	To Equity shares buy-back A/c		4,500
	(Being the amount due to equity shareholders on buy-back)		
	Securities Premium A/c	Dr.	1,500
	To Premium payable on buy-back A/c		1,500
	(Being the amount of premium charged from securities premium account)		
	Equity shares buy-back A/c	Dr.	4,500
	To Bank A/c		4,500
	(Being the payment made on account of buy-back of 30 Lakh Equity Shares)		
April 5	Profit and Loss A/c	Dr.	1,700
	General reserve A/c	Dr.	1,300
	To Capital redemption reserve A/c		3,000
	(Being amount equal to nominal value of buy-back shares from free reserves transferred to capital redemption reserve account as per the law)		

Note:

- In the last entry given in the solution, it is possible to adjust transfer to Capital Redemption Reserve Account from different combinations of amounts from Securities Premium, General Reserve and Profit and Loss Account to the extent available.
- Calculation of amount of Buy Back of Share: ₹12,000/10 X 25% X ₹15 = ₹ 4,500 Lakhs

Q.BB.SM.207:

KG Limited furnishes the following Balance Sheet as at 31st March, 20X1:

Particulars		Notes	₹
Equity and Liabilities			
1	Shareholders' funds		
A	Share capital	1	1,200
B	Reserves and Surplus	2	810
2	Non-current liabilities		
	Long term borrowings	3	750
3	Current liabilities		
A	Trade Payables		745
B	Other Current Liabilities		195
	Total		3,700
Assets			
1	Non-current assets		
A	Property, plant and equipment	4	2,026
B	Non-current Investments		74
2	Current assets		
A	Inventories		600
B	Trade receivables		260
C	Cash and Cash equivalents		740
	Total		3,700

Notes to accounts

No.	Particulars	₹
1	Share Capital	
	Authorized, issued and subscribed capital	
	Equity share capital (fully paid up shares of ₹10 each)	1,200
2	Reserves and Surplus	
	Securities premium	175
	General reserve	265
	Capital redemption reserve	200
	Profit & loss A/c	170
	Total	810
3	Long term borrowings	
	12% Debentures	750

4	Property, plant and equipment	
	Land and Building	1,800
	Plant and machinery	226
	Net carrying value	2,026

On 1st April, 20X1, the company announced the buy-back of 25% of its equity shares @ ₹15 per share. For this purpose, it sold all of its investments for ₹75 lakhs.

On 5th April, 20X1, the company achieved the target of buy-back. On 30th April, 20X1 the company issued one fully paid-up equity share of ₹10 by way of bonus for every four equity shares held by the equity shareholders.

You are required to:

- (1) Pass necessary journal entries for the above transactions.
- (2) Prepare Balance Sheet of KG Limited after bonus issue of the shares.

SOLUTION

In the books of KG Limited Journal Entries

Date	Particulars	Dr.	Cr.
20X1		(₹ in lakhs)	
April 1	Bank A/c Dr.	75	
	To Investment A/c		74
	To Profit on sale of investment		1
	(Being investment sold on profit)		
April 5	Equity share capital A/c Dr.	300	
	Securities premium A/c Dr.	150	
	To Equity shares buy-back A/c		450
	(Being the amount due to equity shareholders on buy-back)		
	Equity shares buy-back A/c Dr.	450	
	To Bank A/c		450
	(Being the payment made on account of buy-back of 30 Lakh Equity Shares)		
April 5	General reserve A/c Dr.	265	
	Profit and Loss A/c Dr.	35	
	To Capital redemption reserve A/c		300
	(Being amount equal to nominal value of buy-back shares from free reserves transferred to capital redemption reserve account as per the law)		
April 30	Capital redemption reserve A/c Dr.	225	
	To Bonus shares A/c (W.N.I.)		225
	(Being the utilization of capital redemption reserve to issue bonus shares)		
	Bonus shares A/c Dr.	225	
	To Equity share capital A/c		225
	(Being issue of one bonus equity share for every four equity shares held)		

Balance Sheet (After buy-back and issue of bonus shares)

	Particulars	Notes	₹
	Equity and Liabilities		
I	Shareholders' funds		
A	Share capital	1	1,125

	B	Reserves and Surplus	2	436
2		Non-current liabilities		
		Long term borrowings	3	750
3		Current liabilities		
	A	Trade Payables		745
	B	Other Current Liabilities		195
		Total		3,251
		Assets		
1		Non-current assets		
	A	Property, plant and equipment	4	2,026
2		Current assets		
	A	Inventories		600
	B	Trade receivables		260
	C	Cash and Cash equivalents		365
		Total		3,251

Notes to accounts

No.	Particulars		₹
1	Share Capital		
	Authorized, issued and subscribed capital:		
	Equity share capital (fully paid up shares of ₹ 10 each)		1,125
2	Reserves and Surplus		
	General Reserve	265	
	Less: Transfer to CR	(265)	-
	Capital Redemption Reserve	200	
	Add: Transfer due to buy-back of shares from P/L	35	
	Add; Transfer due to buy-back of shares from General Reserve	265	
	Less: Utilisation for issue of bonus shares	(225)	275
	Securities premium	175	
	Less: Adjustment for premium paid on buy-back	(150)	25
	Profit & Loss A/c	170	
	Add: Profit on sale of investment	1	
	Less: Transfer to CRR	(35)	136
	Total		436
3	Long term borrowings		
	12% Debentures		750
4	Property, Plant and Equipment		
	Land and Building		1,800
	Plant and machinery		226
	Net carrying value		2,026

Working Notes:

- Amount of bonus shares = 25% of (1,200 - 300) lakhs = ₹ 225 lakhs
- Cash at bank after issue of bonus shares



Particulars	₹ in lakhs
Cash balance as on 1st April, 20X1	740
Add: Sale of investments	75
	815
Less: Payment for buy-back of shares	(450)
	365

Note: In the given solution, it is possible to adjust transfer to capital redemption reserve account or capitalization of bonus shares from any other free reserves or securities premium (to the extent available) also.

Q.BB.RMP.208: (MTP Oct20)

The following was the summarized balance sheet of Bhoomi Ltd. as on 31st March, 2020:

Equity & liability	Rs. (In lakhs)	Assets	Rs. (In lakhs)
Authorised Capital:		Property, plant and equipment	1,12,000
Equity shares of Rs. 10 each	<u>80,000</u>	Investments	24,000
Issued Capital		Cash at Bank	13,200
Equity Shares of Rs.10 each Fully Paid up	64,000	Trade Receivables	66,000
10% Redeemable Preference Shares of 10 each, Fully Paid Up	20,000		
Reserves & Surplus:			
Capital Redemption Reserve	8,000		
Securities Premium	6,400		
General Reserve	48,000		
Profit & Loss Account	2,400		
9% Debentures	40,000		
Trade Payables	26,400		
	<u>2,15,200</u>		<u>2,15,200</u>

On 1st April, 2020 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 25% of its Equity Shares at Rs.20 per Share. In order to make Cash available, the Company sold all the Investments for Rs.25,000 Lakhs and raised a Bank Loan amounting to Rs.16,000 lakh on the Security of the Company's Plant.

Give the necessary Journal Entries considering that the buyback is authorized by the articles of company and necessary resolution is passed by the company for this. The amount of Securities premium may be utilized to the maximum extent allowed by law.

SOLUTION:

*Journal entries
In the books of Bhoomi Ltd.*

		Dr.	Cr.
		Rs. in lakhs	
1	Bank A/c	Dr.	25,000
	To Investments A/c		24,000
	To Profit and Loss A/c		1,000
	<i>(Being Investments sold and, profit being credited to Profit and Loss Account)</i>		
2	10% Redeemable Preference Share Capital A/c	Dr.	20,000
	Premium payable on Redemption of Preference Shares A/c	Dr.	2,000
	To Preference Shareholders A/c		22,000
	<i>(Being amount payable on redemption of Preference shares, at a Premium of 10%)</i>		
3	Securities Premium A/c	Dr.	2,000
	To Premium payable on Redemption of Preference Shares A/c		2,000
	<i>(Being Securities Premium utilised to provide Premium on Redemption of Preference Shares)</i>		
4	Equity Share Capital A/c	Dr.	16,000
	Premium payable on Buyback A/c	Dr.	16,000
	To Equity Share buy back A/c		32,000
	<i>(Being the amount due on buy-back)</i>		
5	Securities Premium A/c (6,400 – 2,000)	Dr.	4,400
	General Reserve A/c (balancing figure)	Dr.	11,600
	To Premium payable on Buyback A/c		16,000
	<i>(Being premium on buyback provided first out of Securities Premium and the balance out of General Reserves.)</i>		
6	Bank A/c	Dr.	16,000
	To Bank Loan A/c		16,000
	<i>(Being Loan taken from Bank to finance Buyback)</i>		
7	Preference Shareholders A/c	Dr.	22,000
	Equity Shares buy back A/c	Dr.	32,000
	To Bank A/c		54,000
	<i>(Being payment made to Preference Shareholders and Equity Shareholders)</i>		
8	General Reserve Account	Dr.	36,000
	To Capital Redemption Reserve Account		36,000
	<i>(Being amount transferred to Capital Redemption Reserve Account to the extent of face value of preference shares redeemed and equity Shares bought back) (20,000 + 16,000)</i>		

Q.BB.SM.209:

Anu Ltd. (a non-listed company) furnishes you with the following balance sheet as at 31st March, 20X1:

(in crores ₹)

Particulars		Notes	₹
Equity and Liabilities			
1	Shareholders' funds		
A	Share capital	1	100
2	Reserves and Surplus	2	300
A	Current liabilities		
B	Trade Payables		40
	Total		440
Asset			
1	Non-current assets		
A	Property, plant and equipment	3	-
B	Non-Current Investments	4	100
2	Current assets		
A	Trade receivables		140
B	Cash and Cash equivalents		200
	Total		440

Notes to accounts

No.	Particulars	₹
1	Share Capital	
	Authorized, issued and subscribed share capital:	
	12% Redeemable preference shares of ₹ 100 each, fully paid up	75
	Equity shares of ₹ 10 each, fully paid up	25
	Total	100
2	Reserves and Surplus	
	Capital reserve	15
	Securities premium	25
	Revenue reserves	260
	Total	300
3	Property, Plant and Equipment	
	PPE Cost	100
	Less: Provision for depreciation	(100)
	Net carrying value	NIL
4	Non-Current Investments	
	Non-current investments at cost (Market value ₹ 400 Cr.)	100

The company redeemed preference shares on 1st April, 20X1. It also bought back 50 lakhs equity shares of ₹ 10 each at ₹ 50 per share. The payments for the above were made out of the huge bank balances, which appeared as a part of current assets.

You are asked to:

- (i) Pass journal entries to record the above.
(ii) Prepare balance sheet as at 1.4.20X1.

SOLUTION*Journal entries in the books of Anu Ltd.*

₹ in crores

	Particulars	Dr.	Cr.
1st	12% Preference share capital A/c	Dr.	75
April, 20X1	To Preference shareholders A/c		75
	(Being preference share capital account transferred to shareholders account)		
	Preference shareholders A/c	Dr.	75
	To Bank A/c		75
	(Being payment made to shareholders)		
	Shares buy-back A/c	Dr.	25
	To Bank A/c		25
	(Being 50 lakhs equity shares bought back @ ₹ 50 per share)		
	Equity share capital A/c (50 lakhs x ₹ 10)	Dr.	5
	Securities premium A/c (50 lakhs x ₹ 40)	Dr.	20
	To Shares buy-back A/c		25
	(Being cancellation of shares bought back)		
	Revenue Reserve A/c	Dr.	80
	To Capital Redemption Reserve A/c (75+5)		80
	(Being creation of capital redemption reserve to the extent of the face value of preference shares redeemed and equity shares bought back)		

Balance Sheet of Anu Ltd as at 1.4.20X1

(in crores ₹)

Particulars		Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
A	Share capital	1	20
B	Reserves and Surplus	2	280
2	Current liabilities		
A	Trade Payables		40
	Total		340
	Assets		
1	Non-current assets		
A	Property, plant and equipment	3	-
B	Non-Current Investments	4	100
2	Current assets		
A	Trade receivables		140
B	Cash and Cash equivalents	5	100
	Total		340

Notes to accounts

No.	Particulars		₹
1	Share Capital		
	Authorized, issued and subscribed share capital		20
	200 lakhs Equity shares of ₹ 10 each fully paid		
	Total		20
2	Reserves and Surplus		
	Capital reserve		15
	Capital redemption reserve		80
	Securities premium	25	
	Less: Utilization for buy-back of shares	(20)	5
	Revenue Reserve	260	
	Less: transfer to Capital redemption reserve	(80)	180
	Total		280
3	Property, plant and Equipment		
	PPE: cost		100
	Less: Provision for depreciation		(100)
	Net carrying value		-
4	Non-Current Investments		
	Non-current investments at cost		100
	(Market value ₹ 400 Crores)		
5	Cash and Cash Equivalents		
	Cash and Cash Equivalents as on 31.3.20X1		200
	Less: Bank payment for redemption and buy-back		(100)
	Total		100

Q.BB.RMP.210: (RTP May23)

Pay Limited provides you with the following information as at 31st March, 2022:

	(₹ in Lakhs)	
Share Capital:		
Authorised		300
Issued:		
11% Redeemable preference shares of ₹ 100 each fully paid	125	
Equity shares of ₹ 10 each fully paid	175	300
Reserves and surplus:		
Capital reserve	35	
Securities premium	105	
Revenue reserves	460	
Profit and loss account	50	650
Current liabilities and provisions		50
Fixed assets: cost	100	
Less: Accumulated depreciation	(90)	10
Non-current investments at cost (Market value ₹ 400 Lakhs)		200
Current assets		790

- (i) The company redeemed preference shares at a premium of 4% on 1st April, 2022.
(ii) It also bought back 2.5 lakhs equity shares of ₹ 10 each at ₹ 40 per share. The payments for the above were made out of the bank balances, which appeared as a part of current assets.

You are asked to:

- (1) Pass journal entries to record the above.
(2) Prepare balance sheet as at 01.04.2022.

SOLUTION

(i) Journal entries in the books of Pay Ltd.

₹ in lakhs

	Particulars		Debit	Credit
1 st April, 2022	11% Preference share capital A/c	Dr.	125	
	Premium payable on Redemption of Preference Shares	Dr.	5	
	To Preference shareholders A/c			130
	(Being preference share capital account transferred to shareholders account)			
	Preference shareholders A/c	Dr.	130	
	To Bank A/c			130
	(Being payment made to shareholders)			
	Shares buy back A/c	Dr.	100	
	To Bank A/c			100
	(Being 2.5 lakhs equity shares bought back @ ₹ 40 per share)			
	Equity share capital A/c (2.5 lakh x ₹ 10)	Dr.	25	
	Premium payable on buy-back A/c (2.5 lakh x ₹ 30)	Dr.	75	
	To Shares buy back A/c			100
	(Being cancellation of shares bought back)			
	Revenue reserve A/c	Dr.	150	
	To Capital Redemption Reserve A/c (125 + 25)			150
	(Being creation of capital redemption reserve to the extent of the face value of preference shares redeemed and equity shares bought back)			
	Securities Premium	Dr.	80	
	To Premium payable on Redemption of Pref. Shares			5
	To Premium payable on buy-back A/c			75
	(Being premium on preference shares redeemed* and equity shares bought back charged to securities premium account)			

*Securities premium utilized for premium on preference shares redeemed assuming that the company is not governed under section 133 of the Companies Act. Alternatively, it may not be utilized assuming otherwise.

(ii)

Balance Sheet of Pay Ltd as at 1.4.2022

Particulars	Note No	₹ in lakhs
I. Equity and Liabilities		
(i) Shareholder's Funds		
(a) Share Capital	1	150
(b) Reserves and Surplus	2	570

(2) Current Liabilities		50
Total		770
II. Assets		
(1) Non-current assets		
(a) Property, plant and Equipment	3	10
(a) Non-current investments – Investment at cost Market value ₹ 400 crores)		200
(2) Current assets	4	560
Total		770

Notes to Accounts

1.	Share Capital		₹ In lakhs
	Authorised, Issued and Subscribed:		
	Equity shares of ₹ 10 each		150
2.	Reserves and Surplus		
	Capital reserve	35	
	Capital redemption reserve	150	
	Securities premium	105	
	Less: Utilisation for buy back and redemption of shares	(80)	25
	Revenue Reserve	460	
	Less: transfer to Capital redemption reserve (150)	310	
	Profit and Loss Account balance	50	570
3.	Property, plant and equipment		
	Cost	100	
	Less: Provision for depreciation	(90)	10
4.	Current assets		
	Current assets as on 31.3.2022	790	
	Less: Bank payment for redemption and buy back	(230)	560

Q.BB.RMP.211: (May21 RTP)

M/s. Vriddhi Infra Ltd. (a non-listed company) provide the following information as on 31.3.2020:

	(Rs.)
Land and Building	21,50,000
Plant & Machinery	15,00,000
Non- current Investment	2,00,000
Trade Receivables	5,50,000
Inventories	1,80,000
Cash and Cash Equivalent	40,000
Share capital:1,00,000 Equity Shares of Rs. 10 each fully paid up	10,00,000
Securities Premium	3,00,000
General Reserve	2,50,000
Profit & Loss Account (Surplus)	1,50,000

10% Debentures (Secured by floating charge on all assets)	20,00,000
Unsecured Loans	8,00,000
Tarade Payables	1,20,000

On 21st April, 2020 the Company announced the buyback of 15,000 of its equity shares @ Rs. 15 per share. For this purpose, it sold all its investment for Rs. 2.50 lakhs. On 25th April, 2020, the company achieved the target of buy back. On 1st May, 2020 the company issued one fully paid-up share of Rs. 10 each by way of bonus for every eight equity shares held by the equity shareholders.

You are required to pass necessary Journal Entries for the above transactions.

SOLUTION:

In the books of Vriddhi Infra Ltd.

Journal Entries

Date	Particulars	Dr.	Cr.
April 21	Bank Account Dr. To Investment Account To Profit and Loss Account (Being investment sold on profit)	2,50,000	2,00,000 50,000
April 25	Equity Share capital account Dr. Securities premium A/c Dr. To Equity shares buy back Account (Being the amount due to equity shareholders on buy back)	1,50,000 75,000	2,25,000
	Equity shares buy back A/c Dr. To bank A/c (Being the payment made on account of buyback of 15,000 Equity Shares)	2,25,000	2,25,000
	General reserve A/c Dr. To Capital redemption reserve A/c (Being amount equal to nominal value of bought back shares from free reserves transferred to capital redemption reserve account as per the law)	1,50,000	1,50,000
May 1	Capital redemption reserve A/c Dr. To Bonus shares A/c (W.N.1) (Being the utilization of capital redemption reserve to issue bonus shares)	1,06,250	1,06,250
	Bonus shares A/c Dr. To Equity share capital A/c (Being issue of one bonus equity share for every ten equity shares held)	1,06,250	1,06,250

Working Note:

$$\begin{aligned} \text{Amount of bonus shares} &= \{(1,00,000 - 15,000) \times 1/8\} \times 10 \\ &= \text{Rs. } 1,06,250 \end{aligned}$$

Q.BB.RMP.212: (MTP May22)

Alpha Ltd. furnishes the following information as at 31st March, 2021:

	Rs. In lakhs	Rs. In lakhs
Shareholders' Funds		
Equity share capital (fully paid up shares of Rs. 10 each)		2,400
Reserves and Surplus		

Securities Premium	350	
General Reserve	530	
Capital Redemption Reserve	400	
Profit & Loss Account	340	1,620
<u>Non-current Liabilities</u>		
12% Debentures		1,500
<u>Current Liabilities</u>		
Trade Payables	1,490	
Other Current Liabilities	390	1,880
<u>Non-current Assets</u>		
Property, plant and equipment		4,052
<u>Current Assets</u>		
Current Investments	148	
Inventories	1,200	
Trade Receivables	520	
Cash and Bank	1,480	3,348

- (i) On 1st April, 2021, the company announced buy-back of 25% of its equity shares @ Rs. 15 per share. For this purpose, it sold all its investment for Rs. 150 lakhs.
- (ii) On 10th April, 2021 the company achieved the target of buy-back.
- (iii) On 30th April, 2021, the company issued one fully paid-up equity share of Rs. 10 each by way of bonus for every four equity shares held by the Capital Redemption Reserve. Premium (excess of buy-back price over the par value) paid on buy-back should be adjusted against securities premium account.
- You are required to pass necessary journal entries and prepare the Balance Sheet of Alpha Ltd. after bonus issue.

SOLUTION

In the books of Alpha Limited Journal Entries

Date 2021	Particulars	Dr. (Rs. in lakhs)	Cr.
April 1	Bank A/C To Investment A/c To Profit on sale of investment (Being investment sold on profit)	150	148 2
April 10	Equity share capital A/C Securities premium A/C To Equity shares buy back A/c (Being the amount due to equity shareholders on buy back)	600 300	900
	Equity shares buy back A/C To Bank A/c (Being the payment made on account of buy back of Rs. 60 Lakh Equity Shares)	900	900
April 10	General reserve A/C	530	

April 30	Profit and Loss A/C	Dr.	70	
	To Capital redemption reserve (CRR) A/c (Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law)			600
	Capital redemption reserve A/C	Dr.	450	
	To Bonus shares A/c (W.N.1) (Being the utilization of capital redemption reserve to issue bonus shares)			450
	Bonus shares A/C	Dr.	450	
	To Equity share capital A/c (Being issue of one bonus equity share for every four equity shares held)			450
	Profit on sale of Investment	Dr.	2	
	To Profit and Loss A/c (Profit on sale transfer to Profit and Loss A/c)			2

Note: For transferring amount equal to nominal value of buy back shares from free reserves to capital redemption reserve account, the amount of Rs. 340 lakhs from P & L A/c and the balance from general reserve may also be utilized. The combination of different set of amounts (from General Reserve and Profit and Loss Account) aggregating Rs. 600 lakhs may also be considered for the purpose of transfer to CRR.

Balance Sheet (After buy back and issue of bonus shares)

Particulars	Note No	Amount (Rs. in Lakhs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	2,250
(b) Reserves and Surplus	2	872
(2) Non-Current Liabilities		
(a) Long-term borrowings - 12% Debentures		1,500
(3) Current Liabilities		
(a) Trade payables		1,490
(b) Other current liabilities		390
Total		6,502
II. Assets		
(1) Non-current assets		
(a) Property, plant and equipment		4,052
(2) Current assets		
(a) Current investments		
(b) Inventory		1,200
(c) Trade receivables		520
(d) Cash and cash equivalents (W.N. 2)		730
Total		6,502

Notes to Accounts:

			Rs. In lakhs
1.	Share Capital		
	Equity share capital (225 lakh fully paid-up shares of Rs. 10 each)		2,250
2.	Reserves and Surplus		
	General Reserve	530	
	Less: Transfer to CRR	(530)	-
	Capital Redemption Reserve	400	
	Add: Transfer due to buy-back of shares from P/L	70	
	Add: Transfer due to buy-back of shares from Gen. res.	530	
	Less: Utilisation for issue of bonus shares	(450)	550
	Securities premium	350	
	Less: Adjustment for premium paid on buy back	(300)	50
	Profit & Loss A/c	340	
	Add: Profit on sale of investment	2	
	Less: Transfer to CRR	(70)	272
			872

Working Notes:

- Amount of equity share capital = 2,400 - 600 (buyback) + 450 (Bonus shares) = 2,250
- Cash at bank after issue of bonus shares

	Rs. in lakhs
Cash balance as on 1st April, 2021	1480
Add: Sale of investments	150
	1630
Less: Payment for buy back of shares	(900)
	730

Q.BB.SM.213: (MTP May23) (RTP Nov20)

Pratham Ltd. (a non-listed company) has the following Capital structure as on 31st March, 20X1:

Particulars	₹	₹
Equity Share Capital (shares of ₹ 10 each fully paid)		30,00,000
Reserves & Surplus		
General Reserve	32,50,000	
Security Premium Account	6,00,000	
Profit & Loss Account	4,30,000	
Revaluation Reserve	6,20,000	49,00,000
Loan Funds		42,00,000

You are required to compute by Debt Equity Ratio Test, the maximum number of shares that can be bought back in the light of above information, when the offer price for buy-back is ₹ 30 per share.

SOLUTION**Debt Equity Ratio Test**

	Particulars	₹
(a)	Loan funds	42,00,000
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹ in crores)	21,00,000
(c)	Present equity shareholders fund (₹ in crores)	72,80,000
(d)	Future equity shareholder fund (₹ in crores) (See Note 2)	59,85,000 (72,80,000-12,95,000)
(e)	Maximum permitted buy-back of Equity (₹ in crores) [(d) - (b)] (See Note 2)	38,85,000 (by simultaneous equation)
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores) (See Note 2)	1,29,500 (by simultaneous equation)

Working Note:

1. Shareholders' funds

Particulars	₹
Paid up capital	30,00,000
Free reserves (32,50,000 + 6,00,000 + 4,30,000)	42,80,000
	72,80,000

2. As per section 68 of the Companies Act, 2013, amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

Suppose amount equivalent to nominal value of bought back shares transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

Equation 1: (Present equity - Nominal value of buy-back transfer to CRR) - Minimum equity to be maintained = Maximum permissible buy-back of equity

$$(72,80,000 - x) - 21,00,000 = y \quad (1)$$

$$\text{Since } 51,80,000 - x = y$$

Equation 2: (Maximum Buyback/offer price of Buyback) x Nominal Value

= Nominal Value of the shares Bought-Back to be transferred to CRR

$$= Y/30 \times 10 = X$$

$$3X = Y \quad (2)$$

$$x = ₹ 12,95,000 \text{ crores and } y = ₹ 38,85,000 \text{ crores}$$

Q.BB.SM.214:

SMM Ltd. has the following capital structure as on 31st March, 20X1: ₹ in crore

	Particulars	Situation I	Situation II
(i)	Equity share capital (shares of ₹ 10 each)	1,200	1,200
(ii)	Reserves:		
	General Reserves	1,080	1,080
	Securities Premium	400	400
	Profit & Loss	200	200
	Infrastructure Development Reserve Statutory Reserve)	320	320

(iii)	Loan Funds	3,200	6,000
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The company has offered buy-back price of ₹ 30 per equity share. You are required to calculate maximum permissible number of equity shares that can be bought back in both situations and also required to pass necessary Journal Entries.

SOLUTION

Statement determining the maximum number of shares to be bought back

Number of shares (in crores)

Particulars	When loan fund is	
	₹ 3,200 crores	₹ 6,000 crores
Shares Outstanding Test (W.N.1)	30	30
Resources Test (W.N.2)	24	24
Debt Equity Ratio Test (W.N.3)	32	Nil
Maximum number of shares that can be bought back [least of the above]	24	Nil

Journal Entries for the Buy-Back (applicable only when loan fund is ₹3,200 crores)

		₹ in crores	
	Particulars	Debit	Credit
(a)	Equity shares buy-back account To Bank account (Being payment for buy-back of 24 crores equity shares of ₹10 each @ ₹30 per share)	Dr. 720	720
(b)	Equity share capital account Premium Payable on buy-back account To Equity share buy-back account (Being cancellation of shares bought back)	Dr. Dr. 240 480	720
	Securities Premium account General Reserve / Profit & Loss A/c To Premium Payable on buy-back account (Being Premium Payable on buy-back account charged to securities premium and general reserve/Profit & Loss A/c)	Dr. Dr. 400 80	480
(c)	General Reserve / Profit & Loss A/c To Capital redemption reserve account (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)	Dr. 240	240

Working Notes:

1. Shares Outstanding Test

Particulars	(Shares in crores)
Number of shares outstanding	120
25% of the shares outstanding	30

2. Resources Test

Particulars	
Paid up capital (₹ in crores)	1,200
Free reserves (₹ in crores) (1,080 + 400 + 200)	1,680



Shareholders' funds (₹ in crores)	2,880
25% of Shareholders fund (₹ in crores)	₹ 720 crores
Buy-back price per share	₹ 30
Number of shares that can be bought back	24 crores shares

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy-Back

Particulars	When loan fund is	
	₹ 3,200 crores	₹ 6,000 crores
(a) Loan funds (₹)	3,200	6,000
(b) Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹) (a/2)	1,600	3,000
(c) Present equity shareholders fund (₹)	2,880	2,880
(d) Future equity shareholders fund (₹) (see W.N.4)	2,560 (2,880-320)	N.A.
(e) Maximum permitted buy-back of Equity (₹) [(d) - (b)]	960	Nil
(f) Maximum number of shares that can be bought back @ ₹ 30 per share	32 crore shares	Nil
As per the provisions of the Companies Act, 2013, company	Qualifies	Does not Qualify

4. Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y' Then

Equation 1: (Present Equity - Transfer to CRR) - Minimum Equity to be maintained = Maximum Permitted Buy-Back

$$= (2,880 - x) - 1,600 = y$$

$$= 1280 - x = y \quad (1)$$

Equation 2: Maximum Permitted Buy-Back X Nominal Value Per Share/Offer Price Per Share

$$y/30 \times 10 = x \text{ or}$$

$$3x = y \quad (2)$$

by solving the above two equations we get

$$x = ₹ 320 \quad y = ₹ 960$$

Q.BB.RMP.215: (MTP - March18, August18, March19 & April19)

SMM Ltd. has the following capital structure as on 31st March, 2017: Rs. in crore

	Particulars	Situation	Situation
(i)	Equity share capital (shares of Rs. 10 each)	1,200	1,200
(ii)	Reserves:		
	General Reserves	1,080	1,080
	Securities Premium	400	400
	Profit & Loss	200	200
	Infrastructure Development Reserve (Statutory Reserve)	320	320

(iii)	Loan Funds	3,200	6,000
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The company has offered buy back price of Rs. 30 per equity share. You are required to calculate maximum permissible number of equity shares that can be bought back in both situations and also required to pass necessary Journal Entries.

SOLUTION:

Statement determining the maximum number of shares to be bought back

Number of shares (in crores)

Particulars	When loan fund is	
	Rs. 3,200 crores	Rs. 6,000 crores
Shares Outstanding Test (W.N.1)	30	30
Resources Test (W.N.2)	24	24
Debt Equity Ratio Test (W.N.3)	32	Nil
Maximum number of shares that can be bought back [least of the above]	24	Nil

Journal Entries for the Buy Back

(Applicable only when loan fund is Rs. 3,200 crores)

(Rs. In Crores)

Particulars		Dr.	Cr.
(a)	Equity share buyback account To Bank account (Being payment for buyback of 24 crores equity shares of Rs. 10 each @ Rs. 30 per share)	Dr. 720	720
(b)	Equity Share capital account Premium payable on buy back A/c To Equity shares buy back Account (Being cancellation of shares bought back)	Dr. Dr. 240 480	720
	Securities Premium Account General Reserve / Profit & Loss A/c To Premium payable on buy back Account (Being Premium Payable on buyback account charged to securities premium and general reserve/Profit & Loss A/c)	Dr. Dr. 400 80	480
(c)	General Reserve / Profit & Loss A/c To Capital Redemption Reserve Account (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)	Dr. 240	240

Working Notes:

1. Shares Outstanding Test

Particulars	(Shares in crores)
Number of shares outstanding	120
25% of the shares outstanding	30

2. Resources Test

Particulars	
Paid up capital (Rs. in crores)	1,200
Free reserves (Rs. in crores) (1,080 + 400 + 200)	1,680
Shareholders' funds (Rs. in crores)	2,880
25% of Shareholders fund (Rs. in crores)	Rs. 720 crores
Buy back price per share	Rs. 30
Number of shares that can be bought back	24 crores shares

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy Back

Particulars	When loan fund is	
	Rs. 3,200 crores	Rs. 6,000 crores
(a) Loan funds (Rs.)	3,200	6,000
(b) Minimum equity to be maintained after buy back in the ratio of 2:1 (Rs.) (a/2)	1,600	3,000
(c) Present equity shareholders fund (Rs.)	2,880	2,880
(d) Future equity shareholders fund (Rs.) (See W.N.4)	2,560 (2,880-320)	N.A.
(e) Maximum permitted buy back of Equity (Rs.) [(d) - (b)]	960	Nil
(f) Maximum number of shares that can be bought back @ Rs. 30 per share	32 crore shares	Nil
As per the provisions of the Companies Act, 2013, company	Qualifies	Does not Qualify

4. Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y' Then

Equation 1 : (Present Equity- Transfer to CRR)- Minimum Equity to be maintained

= Maximum Permitted Buy Back

$$= (2,880 - x) - 1,600 = y$$

$$= 1280 - x = y \quad (1)$$

Equation 2: Maximum Permitted Buy Back X Nominal Value Per Share/Offer Price Per Share

$$= (y/30 \times 10) = x \text{ Or } 3x = y \quad (2)$$

by solving the above two equations we get

$$x = \text{Rs. } 320$$

$$y = \text{Rs. } 960$$

Q.BB.RMP.216: (Exam July21) (Similar to Q202)

A company provides the following 2 possible Capital Structures as on 31st March, 2021:

Particulars	Situation 1 (Rs.)	Situation 2 (Rs.)
Equity Share Capital (Shares of Rs. 10 each, fully paid up)	30,00,000	30,00,000
Reserves & Surplus:		

General Reserve	12,00,000	12,00,000
Securities Premium	6,00,000	6,00,000
Profit & Loss	2,10,000	2,10,000
Statutory Reserve	4,20,000	4,20,000
Loan Funds	25,00,000	1,20,00,000

The company is planning to offer buy back of Equity Share at a price of Rs. 30 per equity share.

You are required to calculate maximum permissible number of equity shares that can be bought back in both the situations as per Companies Act, 2013 and are also required to pass necessary Journal Entries in the situation where the buyback is possible.

SOLUTION

Statement determining the maximum number of shares to be bought back

Number of shares (in crores)

Particulars	When loan fund is	
	Rs. 25,00,000	Rs. 1,20,00,000
Shares Outstanding Test (W.N.1)	75,000	75,000
Resources Test (W.N.2)	41,750	41,750
Debt Equity Ratio Test (W.N.3)	94,000	Nil
Maximum number of shares that can be bought back [least of the above]	41,750	Nil

Journal Entries for the Buy-Back (applicable only when loan fund is Rs. 25,00,000)

			Rs.	
	Particulars		Debit	Credit
(a)	Equity shares buy-back account	Dr.	12,52,500	
	To Bank account			12,52,500
	(Being payment for buy-back of 41,750 equity shares of Rs. 10 each @ Rs. 30 per share)			
(b)	Equity share capital account	Dr.	4,17,500	
	Premium Payable on buy-back account	Dr.	8,35,000	
	To Equity shares buy-back account			12,52,500
	(Being cancellation of shares bought back)			
	Securities Premium account General Reserve / Profit & Loss A/c	Dr.	6,00,000	
	To Premium Payable on buy-back account	Dr.	2,35,000	8,35,000
	(Being Premium Payable on buy-back account charged to securities premium and general reserve/Profit & Loss A/c)			
(c)	General Reserve*	Dr.	4,17,500	
	To Capital redemption reserve account			4,17,500
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)			

*Profit and Loss account balance amounting Rs. 2,10,000 may also be used and General Reserve may be debited for the balance amount.



Working Notes:**1. Shares Outstanding Test**

Particulars	(Shares in crores)
Number of shares outstanding	3,00,000
25% of the shares outstanding	75,000

2. Resources Test

Particulars	
Paid up capital (Rs.)	30,00,000
Free reserves (Rs.) (12,00,000+6,00,000+2,10,000)	<u>20,10,000</u>
Shareholders' funds (Rs.)	<u>50,10,000</u>
25% of Shareholders fund (Rs.)	Rs. 12,52,500
Buy-back price per share	Rs. 30
Number of shares that can be bought back	41,750 shares

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy-Back

	Particulars	When loan fund is	
(a)	Loan funds (Rs.)	Rs. 25,00,000	Rs. 1,20,00,000
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (Rs.) (a/2)	12,50,000	60,00,000
(c)	Present equity shareholders fund (Rs.)	50,10,000	50,10,000

Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y' Then

Equation 1: (Present Equity - Transfer to CRR) - Minimum Equity to be maintained = Maximum Permitted Buy-Back

$$\begin{aligned}
 &= (50,10,000 - x) - 12,50,000 = y \\
 &= 37,60,000 - x = y \quad (1)
 \end{aligned}$$

Equation 2: Maximum Permitted Buy-Back X Nominal Value Per Share/Offer Price Per Share

$$\begin{aligned}
 &y/30 \times 10 = x \text{ or} \\
 &3x = y \quad (2)
 \end{aligned}$$

by solving the above two equations we get

$$x = \text{Rs. } 9,40,000 \text{ and } y = \text{Rs. } 28,20,000$$

Q.BB.RMP.217: (EXAM May23)

VIJ Ltd. has the following Capital Structure as on 31st March, 2022:

particulars	(₹ in Lakhs)
Equity Share Capital (Shares of ₹ 10 each, fully Paid)	990
Reserves & Surplus:	
General Reserve	720
Securities Premium Account	270
Profit & Loss Account	270
Infrastructure development Reserve	540
Loan Funds	1,800
	5,400

On the recommendation of the Board of Directors, the shareholders of the company have approved on 2nd September, 2022 a proposal to buy-back the maximum permissible number of equity shares, considering the sufficient funds available at the disposal of the company.

The current market value of the company's shares is ₹ 25 per share and in order to induce the existing shareholders to offer their shares for buy-back, it was decided to offer a price of 20% over market rate.

You are also informed that the Infrastructure Development Reserve is created to satisfy income tax requirements.

You are required to compute the maximum permissible number of equity shares that can be brought back in the light of the above information and also under a situation where the loan funds of the company were either ₹ 3,600 lakh or ₹ 4,500 lakh.

The entire buy-back is completed by 09/12/2022, show the accounting entries with full narration in the company's books in each situation.

Q.BB.SM.218:

Perrotte Ltd. has the following Capital Structure as on 31.03.2011:

S.No.	Particulars	(in crores)
1	Equity Share Capital (Shares of ₹ 10 each fully paid)	330
	Reserves and Surplus:	
2	General Reserve	240
3	Securities Premium Account	90
4	Profit & Loss Account	90
5	Infrastructure Development Reserve	180
6	Loan Funds	1800



The Shareholders of Perrotte Ltd., on the recommendation of their Board of Directors, have approved on 12.09.2011 a proposal to buy back the maximum permissible number of Equity shares considering the large surplus funds available at the disposal of the company.

The prevailing market value of the company's shares is Rs. 25 per share and in order to induce the existing shareholders to offer their shares for buy back, it was decided to offer a price of 20% over market.

You are also informed that the Infrastructure Reserve is created to satisfy Income-tax Act requirements.

You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under a situation where the loan funds of the company were either Rs. 1,200 crores or Rs. 1,500 crores.

Assuming that the entire buy back is completed by 09.12.2011, show the accounting entries in the company's books in each situation.

SOLUTION

Statement determining the maximum number of shares to be bought back

Number of shares

Particulars	When loan fund is		
	₹ 1,800 crores	₹ 1,200 crores	₹ 1,500 crores
Shares Outstanding Test (W.N.1)	8.25	8.25	8.25
Resources Test (W.N.2)	6.25	6.25	6.25
Debt Equity Ratio Test (W.N.3)	Nil	3.75	Nil
Maximum number of shares that can be bought back [least of the above]	Nil	3.75	Nil

Journal Entries for the Buy-Back (applicable only when loan fund is ₹ 1,200 crores)

₹ in crores

	Particulars		Debit	Credit
(a)	Equity share buy-back account	Dr.	112.5	
	To Bank account			112.5
	(Being buy-back of 3.75 crores equity shares of ₹ 10 each @ ₹ 30 per share)			
(b)	Equity share capital account	Dr.	37.5	
	Securities premium account	Dr.	75	

	To Equity share buy-back account (Being cancellation of shares bought back)		112.5
(c)	General reserve account	Dr.	37.5
	To Capital redemption reserve account (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)		37.5

Working Notes:**1. Shares Outstanding Test**

Particulars	(Shares in crores)
Number of shares outstanding	33
25% of the shares outstanding	8.25

2. Resources Test

Particulars	
Paid up capital (₹ in crores)	330
Free reserves (₹ in crores)	420
Shareholders' funds (₹ in crores)	750
25% of Shareholders fund (₹ in crores)	₹ 187.5 crores
Buy-back price per share	₹ 30
Number of shares that can be bought back (shares in crores)	6.25 crores shares

3. Debt Equity Ratio Test

Particulars	When loan fund is		
	₹ 1,800 crores	₹ 1,200 crores	₹ 1,500 crores
(a) Loan funds (₹ in crores)	1,800	1,200	1,500
(b) Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹ in crores)	900	600	750
(c) Present equity shareholders fund (₹ in crores)	750	750	750
(d) Future equity shareholder fund (₹ in crores) (See Note 2)	N.A.	712.5 (750-37.5)	N.A.
(e) Maximum permitted buy-back of Equity (₹ in crores) [(d) - (b)] (See Note 2)	Nil	112.5 (by simultaneous equation)	Nil
(f) Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores) (See Note 2)	Nil	3.75 (by simultaneous equation)	Nil

Note:

- Under Situations 1 & 3 the company does not qualify for buy-back of shares as per the provisions of the Companies Act, 2013.
- As per section 68 of the Companies Act, 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserve after such buy-back. In the question, it is stated that the company has surplus funds to dispose of therefore, it is presumed that buy-back is out of free reserves or securities premium and hence a sum equal to the nominal value of the share bought back shall be transferred to Capital Redemption Reserve (CRR). Utilization of CRR is restricted to issuance of fully paid-up bonus shares

only. It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve. Therefore, for calculation of future equity i.e., share capital and free reserves, amount transferred to CRR on buy-back has to be excluded from present equity.

Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

Suppose amount equivalent to nominal value of bought back shares transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

Then

Equation 1: (Present equity – Nominal value of buy-back transfer to CRR) – Minimum equity to be maintained = Maximum permissible buy-back of equity

$$(750 - x) - 600 = y \quad (1)$$

Since $150 - x = y$

Equation 2: (Maximum Buyback/offer price of Buyback) x Nominal Value

= Nominal value of the shares bought –back to be transferred to CRR

$$= Y/30 \times 10 = X$$

$$3X = Y \quad (2)$$

by solving the above two equations we get

$$x = ₹ 37.5 \text{ crores } y = ₹ 112.5 \text{ crores}$$

Q.BB.RMP.219: (EXAM May22)

Quick Ltd. has the following capital structure as on 31st March, 2021:

		Rs. in Crores	
(1)	Share Capital:		462
	(Equity Shares of Rs. 10 each, fully paid)		
(2)	Reserves and Surplus:		
	General Reserve	336	
	Securities Premium Account	126	
	Profit and Loss Account	126	
	Statutory Reserve	180	
	Capital Redemption Reserve	87	
	Plant Revaluation Reserve	33	888
(3)	Loan Funds:		
	Secured	2,200	
	Unsecured	320	2,520

On the recommendations of the Board of Directors, on 16th September, 2021, the shareholders of the company have approved a proposal to buy-back of equity shares. The prevailing market value of the company's share is Rs. 20 per share and in order to induce the existing shareholders to offer their shares for buy-back, it was decided to offer a price of 50% over market value. The company had sufficient balance in its bank account for the buy-back of shares

You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under a situation where the loan funds of the company were either Rs. 1,680 Crores or Rs. 2,100 Crores.

Assuming that the entire buy-back is completed by 31st December, 2021, Pass the necessary accounting entries (narrations not required) in the books of the company in each situation.

SOLUTION

Statement determining the maximum number of shares to be bought back

Number of shares

Particulars	When loan fund is		
	Rs. 2,520 crores	Rs. 1,680 crores	Rs. 2,100 crores
Shares Outstanding Test (W.N.1)	11.55	11.55	11.55
Resources Test (W.N.2)	8.75	8.75	8.75
Debt Equity Ratio Test (W.N.3)	Nil	5.25	Nil
Maximum number of shares that can be bought back [least of the above]	Nil	5.25	Nil

Journal Entries for the Buy-Back (applicable only when loan fund is Rs. 1,680 crores)

Rs. in crores

	Particulars	Debit	Credit
(a)	Equity share buy-back account To Bank account	Dr. 157.5	157.5
(b)	Equity share capital account (5.25 x Rs. 10) Securities premium account (5.25 x Rs. 20) To Equity share buy-back account	Dr. 52.5 Dr. 105	157.5
(c)	General reserve account To Capital redemption reserve account	Dr. 52.5	52.5

Working Notes:

1. Shares Outstanding Test

Particulars	(Shares in crores)
Number of shares outstanding	46.2
25% of the shares outstanding	11.55

2. Resources Test

Particulars	
Paid up capital (Rs. in crores)	462
Free reserves (Rs. in crores) (336+126+126)	588
Shareholders' funds (Rs. in crores)	1,050
25% of Shareholders fund (Rs. in crores)	Rs. 262.5 crores
Buy-back price per share	Rs. 30
Number of shares that can be bought back (shares in crores)	8.75 crores shares

3. Debt Equity Ratio Test

	Particulars	When loan fund is		
		Rs. 2,520 crores	Rs. 1,680 crores	Rs. 2,100 crores
(a)	Loan funds (Rs. in crores)	2,520	1,680	2,100
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (Rs. in crores)	1,260	840	1,050
(c)	Present equity Shareholders fund (Rs. in crores)	1,050	1,050	1,050
(d)	Future equity shareholder fund (Rs. in crores) (See Note 2)	N.A.	997.5 (1,050-52.5)	N.A.
(e)	Maximum permitted buy-back of Equity (Rs. in crores) [(d) - (b)] (See Note 2)	Nil	157.5 (By simultaneous equation)	Nil
(f)	Maximum number of shares that can be bought back @ Rs. 30 per share (shares in crores) (See Note 2)	Nil	5.25 (By simultaneous equation)	Nil

Note:

- Under Situations 1 & 3 the company does not qualify for buy-back of shares as per the provisions of the Companies Act, 2013.
- As per section 68 of the Companies Act, 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserve after such buy-back.
Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

Suppose amount equivalent to nominal value of bought back shares transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

Then

Equation 1: (Present equity - Nominal value of buy-back transfer to CRR) - Minimum equity to be maintained = Maximum permissible buy-back of equity

$$(1,050 - x) - 840 = y$$

Since $210 - x = y$

Equation 2: (Maximum buy-back/Offer price for buy-back) X Nominal Value

= Nominal value of the shares bought -back to be transferred to CRR

$$= (y/x \times 10) = x$$

Or $3x = y$ (2)

by solving the above two equations we get

$$x = \text{Rs. } 52.5 \text{ crores}$$

$$y = \text{Rs. } 157.5 \text{ crores}$$

- Statutory reserves, capital redemption reserve and plant revaluation reserves are not free reserves.
- For calculation of debt -equity ratio both secured and unsecured loans have been considered

Q.BB.SM.220:

Following is the Balance Sheet of Competent Limited as at 31st March, 20X1:



Particulars		Notes	₹
Equity and Liabilities			
1	Shareholders' funds		
A	Share capital	1	12,50,000
B	Reserves and Surplus	2	18,75,000
2	Non-current liabilities		
	Long term borrowings	3	28,75,000
3	Current liabilities		16,50,000
A	Other Current Liabilities		
	Total		76,50,000
Assets			
1	Non-current assets		
A	Property, plant and Equipment	4	46,50,000
2	Current assets		
A	Other Current Assets		30,00,000
	Total		76,50,000

Notes to accounts

No.	Particulars	₹
1	Share Capital	
	Authorized, issued and subscribed capital:	
	Equity share capital (fully paid up shares of ₹ 10 each)	12,50,000
2	Reserves and Surplus	
	Securities premium	2,50,000
	Profit and loss account	1,25,000
	Revenue reserve	15,00,000
	Total	18,75,000
3	Long term borrowings	
	14% Debentures	18,75,000
	Unsecured Loans	10,00,000
	Total	28,75,000
4	Property, plant and equipment	
	Land and Building	19,30,000
	Plant and machinery	18,00,000
	Furniture and fitting	9,20,000
	Net carrying value	46,50,000

The company wants to buy-back 25,000 equity shares of ₹ 10 each, on 1st April, 20X1 at ₹ 20 per share. Buy-back of shares is duly authorized by its articles and necessary resolution has been passed by the company towards this. The payment for buy-back of shares will be made by the company out of sufficient bank balance available shown as part of Current Assets.

Comment with your calculations, whether buy-back of shares by company is within the provisions of the Companies Act, 2013. If yes, pass necessary journal entries towards buy-back of shares and prepare the Balance

Sheet after buy-back of shares.

SOLUTION

Determination of Buy-back of maximum no. of shares as per the Companies Act, 2013

1. Shares Outstanding Test

Particulars	(Shares)
Number of shares outstanding	1,25,000
25% of the shares outstanding	31,250

2. Resources Test: Maximum permitted limit 25% of Equity paid up capital + Free Reserves

Particulars	
Paid up capital (₹)	12,50,000
Free reserves (₹) (15,00,000 + 2,50,000 + 1,25,000)	18,75,000
Shareholders' funds (₹)	31,25,000
25% of Shareholders fund (₹)	7,81,250
Buy-back price per share	₹ 20
Number of shares that can be bought back (shares)	39,062
Actual Number of shares for buy-back	25,000

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy-Back

	Particulars	₹
(a)	Loan funds (₹) (18,75,000+10,00,000+16,50,000)	45,25,000
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹) (a/2)	22,62,500
(c)	Present equity/shareholders fund (₹)	31,25,000
(d)	Future equity/shareholders fund (₹) (see W.N.) (31,25,000 - 2,87,500)	28,37,500 *
(e)	Maximum permitted buy-back of Equity (₹) [(d) - (b)]	5,75,000
(f)	Maximum number of shares that can be bought back @ ₹ 20 per share	28,750 shares
(g)	Actual Buy-Back Proposed	25,000 Shares

*As per Section 68 (2) (d) of the Companies Act 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserves after such buy-back. Further under Section 69 (1), on buy-back of shares out of free reserves a sum equal to the nominal value of the share bought back shall be transferred to Capital Redemption Reserve (CRR). As per section 69 (2) utilization of CRR is restricted to fully paying up unissued shares of the Company which are to be issued as fully paid-up bonus shares only. It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve. Therefore, for calculation of future equity i.e. share capital and free reserves, amount transferred to CRR on buy-back has to be excluded from the present equity.

Summary statement determining the maximum number of shares to be bought back

Particulars	Number of shares
Shares Outstanding Test	31,250
Resources Test	39,062
Debt Equity Ratio Test	28,750
Maximum number of shares that can be bought back [least of the above]	28,750

Company qualifies all tests for buy-back of shares and came to the conclusion that it can buy maximum 28,750 shares on 1st April, 20X1.

However, company wants to buy-back only 25,000 equity shares @ ₹ 20. Therefore, buy-back of 25,000 shares, as desired by the company is within the provisions of the Companies Act, 2013.

Journal Entries for buy-back of shares

	Particulars		Debit (₹)	Credit (₹)
(a)	Equity shares buy-back account	Dr.	5,00,000	
	To Bank account			5,00,000
	(Being buy-back of 25,000 equity shares of ₹ 10 each @ ₹ 20 per share)			
(b)	Equity share capital account	Dr.	2,50,000	
	Securities premium account	Dr.	2,50,000	
	To Equity shares buy-back account			5,00,000
	(Being cancellation of shares bought back)			
(c)	Revenue reserve account	Dr.	2,50,000	
	To Capital redemption reserve account			2,50,000
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital bought back through free reserves)			

Balance Sheet of M/s. Competent Ltd. as at 31st March, 20X1

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
	A Share capital	1	10,00,000
	B Reserves and Surplus	2	16,25,000
2	Non-current liabilities		
	Long term borrowings	3	28,75,000
3	Current liabilities		
	A Other Current Liabilities		16,50,000
	Total		71,50,000
	Assets		
1	Non-current assets		
	A Property, plant and equipment	4	46,50,000
2	Current assets		
	A Other Current Assets (30,00,000 – 5,00,000)		25,00,000
	Total		71,50,000

Notes to accounts

No.	Particulars	₹
1	Share Capital	
	Authorized, issued and subscribed capital:	
	Equity share capital (fully paid up shares of ₹ 10 each)	10,00,000
2	Reserves and Surplus	
	Profit and Loss A/c	1,25,000

	Revenue reserves	15,00,000	
	Less: Transfer to CRR	(2,50,000)	12,50,000
	Securities premium	2,50,000	
	Less: Utilization for share buy-back	(2,50,000)	-
	Capital Redemption Reserves		2,50,000
	Total		16,25,000
3	Long term borrowings		
	14% Debentures		18,75,000
	Unsecured Loans		10,00,000
	Total		28,75,000
4	Property, plant and equipment		
	Land and Building		19,30,000
	Plant and machinery		18,00,000
	Furniture and fitting		9,20,000
	Net carrying value		46,50,000

Working Note

Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

Then

$$(31,25,000 - x) - 22,62,500 = y \quad (1)$$

$$(y/20 \times 10) = x$$

$$\text{or } 2x = y \quad (2)$$

by solving the above equation, we get

$$x = ₹2,87,500 \quad y = ₹ 5,75,000$$

Q.BB.RMP.221: (RTP May18, May22 & MTP Oct18)

Following is the summarized Balance Sheet of Complicated Ltd. as on 31st March, 2016:

Liabilities	Amount (Rs.)
Equity shares of Rs. 10 each, fully paid up	12,50,000
Bonus shares of Rs. 10 each, fully paid up	1,00,000
Share option outstanding Account	4,00,000
Revenue Reserve	15,00,000
Securities Premium	2,50,000
Profit & Loss Account	1,25,000
Capital Reserve	2,00,000
Unpaid dividends	1,00,000
12% Debentures (Secured)	18,75,000
Advance from related parties (Unsecured)	10,00,000
Current maturities of long-term borrowings	16,50,000
Application money received for allotment due for refund	<u>2,00,000</u>
	86,50,000
Fixed Assets	46,50,000

Current Assets	<u>40,00,000</u>
	<u>86,50,000</u>

The Company wants to buy back 25,000 equity shares of Rs. 10 each, on 1st April, 2016 at Rs. 20 per share. Buy back of shares is duly authorized by its articles and necessary resolution has been passed by the Company towards this. The buy-back of shares by the Company is also within the provisions of the Companies Act, 2013. The payment for buy back of shares will be made by the Company out of sufficient bank balance available shown as part of Current Assets.

You are required to prepare the necessary journal entries towards buy back of shares and prepare the Balance Sheet after buy back of shares.

SOLUTION:

As per the information given in the question, buy-back of 25,000 shares @ Rs. 20, as desired by the company, is within the provisions of the Companies Act, 2013.

Journal Entries for buy-back of shares

		Debit (Rs.)	Credit (Rs.)
(a)	Equity shares buy-back account Dr. To Bank account (Being buy back of 25,000 equity shares of Rs. 10 each @ Rs. 20 per share)	5,00,000	5,00,000
(b)	Equity shares capital account Dr. Securities premium account Dr. To Equity shares buy-back account (Being cancellation of shares bought back)	2,50,000 2,50,000	5,00,000
(c)	Revenue reserve account Dr. To Capital redemption reserve account (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital bought back through free reserves)	2,50,000	2,50,000

Balance Sheet of Complicated Ltd. as on 1st April, 2016

Particulars	Note No	Amount Rs.
EQUITY AND LIABILITIES		
1 Shareholders' funds		
a) Share capital	1	11,00,000
b) Reserves and Surplus	2	22,25,000
2 Non-current liabilities		
a) Long-term borrowings	3	28,75,000
3 Current liabilities		
a) Other current liabilities	4	<u>19,50,000</u>
Total		<u>81,50,000</u>
ASSETS		
1 Non-current assets		
a) Fixed assets		46,50,000
2 Current assets (40,00,000-5,00,000)		<u>35,00,000</u>

Total		<u>81,50,000</u>
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Notes to Accounts

		Rs.	Rs.
1.	Share Capital		
	Equity share capital		
	1,10,000 Equity shares of Rs.10 each		11,00,000
2.	Reserves and Surplus		
	Profit and Loss A/c	1,25,000	
	Revenue reserves	15,00,000	
	Less: Transfer to CRR	<u>(2,50,000)</u>	<u>12,50,000</u>
	Securities premium	2,50,000	
	Less: Utilization for share buy-back	<u>(2,50,000)</u>	-
	Share Option Outstanding Account	4,00,000	
	Capital Reserve	2,00,000	
	Capital Redemption Reserve	<u>2,50,000</u>	<u>22,25,000</u>
3.	Long-term borrowings		
	Secured		
	12% Debentures	18,75,000	
	Unsecured loans	<u>10,00,000</u>	<u>28,75,000</u>
4.	Other Current Liabilities		
	Current maturities of long-term borrowings	16,50,000	
	Unpaid dividend	1,00,000	
	Application money received for allotment due for refund	<u>2,00,000</u>	<u>19,50,000</u>

Q.BB.RMP.222: (MTP May18 and May19, Nov22)

Following is the summarized Balance Sheet of Super Ltd. as on 31st March, 2018.

Liabilities	In Rs.
Share Capital	
Equity Shares of Rs. 10 each fully paid up	17,00,000
Reserves & Surplus	
Revenue Reserve	23,50,000
Securities Premium	2,50,000
Profit & Loss Account	2,00,000
Infrastructure Development Reserve	1,50,000
Secured Loan	
9% Debentures	22,50,000
Unsecured Loan	8,50,000
Current Maturities of Long-term borrowings	<u>15,50,000</u>
	<u>93,00,000</u>
Assets	
Fixed Assets	
Tangible Assets	58,50,000
Current Assets	

Current Assets	<u>34,50,000</u>
	<u>93,00,000</u>

Super Limited wants to buy back 35,000 equity shares of Rs. 10 each fully paid up on 1st April, 2018 at Rs. 30 per share. Buy Back of shares is fully Authorised by its articles and necessary resolutions have been passed by the company towards this. The payment for buy back of shares will be made by the company out of sufficient bank balance available as part of the Current Assets.

Comment with calculations, whether the Buy Back of shares by the company is within the provisions of the Companies Act, 2013.

SOLUTION:

Determination of maximum no. of shares that can be bought back as per the Companies Act, 2013

1. Shares Outstanding Test

Particulars	(Shares)
Number of shares outstanding	1,70,000
25% of the shares outstanding	42,500

2. Resources Test: Maximum permitted limit 25% of Equity paid up capital + Free Reserves

Particulars	
Paid up capital (Rs.)	17,00,000
Free reserves (Rs.) (23,50,000 + 2,50,000 + 2,00,000)	28,00,000
Shareholders' funds (Rs.)	45,00,000
25% of Shareholders fund (Rs.)	11,25,000
Buy back price per share	Rs. 30
Number of shares that can be bought back (shares)	37,500
Actual Number of shares proposed for buy back	35,000

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Shareholder's Funds post Buy Back

	Particulars	Rs.
(a)	Loan funds (Rs.) (22,50,000+8,50,000+15,50,000)	46,50,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (Rs.) (a/2) 23,25,000	
(c)	Present equity/shareholders fund (Rs.)	45,00,000
(d)	Future equity/shareholders fund (Rs.) (see W.N.) (45,00,000 - 5,43,750)	39,56,250*
(e)	Maximum permitted buy back of Equity (Rs.) [(d) - (b)]	16,31,250
(f)	Maximum number of shares that can be bought back @ Rs. 30 per share	54,375 shares
(g)	Actual Buy Back Proposed	35,000 Shares

Summary statement determining the maximum number of shares to be bought back

Particulars	Number of shares
Shares Outstanding Test	42,500
Resources Test	37,500
Debt Equity Ratio Test	54,375

Maximum number of shares that can be bought back [least of the above]	37,500
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Company qualifies all tests for buy-back of shares and it can buy back maximum 37,500 shares on 1st April, 2018. However, company wants to buy-back only 35,000 equity shares @ Rs. 30. Therefore, buy-back of 35,000 shares, as desired by the company is within the provisions of the Companies Act, 2013.

Working Note:

Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

Then

$$(45,00,000 - x) - 23,25,000 = y \quad (1)$$

$$(y/30 \times 10) = x \quad \text{Or } 3x = y \quad (2)$$

by solving the above equation, we get

$$x = \text{Rs. } 5,43,750$$

$$y = \text{Rs. } 16,31,250$$

Q.BB.SM.223:

Extra Ltd. (a non-listed company) furnishes you with the following Balance Sheet as at 31st March, 20X1:

(in lakhs ₹)

Particulars		Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
A	Share capital	1	120
B	Reserves and Surplus	2	118
2	Non-current liabilities		
	Long term borrowings	3	4
3	Current liabilities		
A	Trade Payables		70
	Total		312
	Assets		
1	Non-current assets		
A	Property, plant and Equipment		50
B	Non-current Investments		120
2	Current assets		
A	Cash and Cash equivalents		142
	Total		312

Notes to accounts

No.	Particulars	₹
1	Share Capital	
	Authorized, issued and subscribed capital:	
	Equity shares of ₹ 10 each fully paid	100

	9% Redeemable preference shares of ₹ 100 each fully paid	20
	Total	120
2	Reserves and Surplus	
	Capital reserves	8
	Revenue reserves	50
	Securities premium	60
	Total	118
3	Long term borrowings	
	10% Debentures	4

- (i) The company redeemed the preference shares at a premium of 10% on 1st April, 20X1.
- (ii) It also bought back 3 lakhs equity shares of ₹ 10 each at ₹ 30 per share. The payment for the above was made out of huge bank balances.
- (iii) Included in its investment were "investments in own debentures" costing ₹ 2 lakhs (face value ₹ 2.20 lakhs). These debentures were cancelled on 1st April, 20X1.
- (iv) The company had 1,00,000 equity stock options outstanding on the above-mentioned date, to the employees at ₹ 20 when the market price was ₹30 (This was included under current liabilities). On 1.04.20X1 employees exercised their options for 50,000 shares.
- (i) Pass the journal entries to record the above.
- (ii) Prepare Balance Sheet as at 01.04.20X1.

SOLUTION

(₹ in lakhs)

Date	Particulars		Debit	Credit
20X1	9% Redeemable preference share capital A/c	Dr.	20.00	
1st April	Premium on redemption of preference shares A/c	Dr.	2.00	
	To Preference shareholders A/c			22.00
	(Being preference share capital transferred to shareholders account)			
	Preference shareholders A/c	Dr.	22.00	
	To Bank A/c			22.00
	(Being payment made to shareholders)			
	Equity shares buy-back A/c	Dr.	90.00	
	To Bank A/c			90.00
	(Being 3 lakhs equity shares of ₹ 10 each bought back @ ₹ 30 per share)			
	Equity share capital A/c	Dr.	30.00	
	Securities premium A/c	Dr.	60.00	
	To Equity Shares buy-back A/c			90.00
	(Being cancellation of shares bought back)			
	Revenue reserve A/c	Dr.	50.00	
	To Capital redemption reserve A/c			50.00
	(Being creation of capital redemption reserve account to the extent of the face value of preference shares redeemed and equity shares bought back as per the law)			
	10% Debentures A/c	Dr.	2.20	

To Investment (own debentures) A/c			2.00
To Profit on cancellation of own debentures A/c			0.20
<i>(Being cancellation of own debentures costing ₹ 2 lakhs, face value being ₹ 2.20 lakhs and the balance being profit on cancellation of debentures)</i>			
Bank A/c	Dr.	10.00	
Employees stock option outstanding (Current liabilities) A/c	Dr.	5.00	
To Equity share capital A/c			5.00
To Securities premium A/c			10.00
<i>(Being the allotment to employees, of 50,000 shares of ₹ 10 each at a premium of 20 per share in exercise of stock options by employees)</i>			
Securities premium A/c	Dr.	2.00	
To Premium on redemption of preference shares A/c			2.00
<i>(Being premium on redemption of preference shares adjusted through securities premium)</i>			

Balance Sheet of Extra Ltd. as at 01.04.20X1

(in lakhs ₹)

Particulars		Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
A	Share capital	1	75.00
B	Reserves and Surplus	2	66.20
2	Non-current liabilities		
	Long term borrowings	3	1.80
3	Current liabilities		
A	Other Current Liabilities	4	65.00
	Total		208
	Assets		
1	Non-current assets		
A	Property, plant and Equipment		50.00
B	Non-current Investments	5	118.00
2	Current assets		
A	Cash and Cash equivalents	6	40.00
	Total		208

Notes to accounts

No.	Particulars	₹
1	Share Capital	
	Equity shares of ₹ 10 each fully paid	100
	Less: Cancellation of bought back shares	(30)
	Add: Shares issued against ESOP	5
	Total	75
2	Reserves and Surplus	

	Capital Reserve		
	Opening balance	8.00	
	Add: Profit on cancellation of debentures	0.20	8.20
	Revenue reserves		
	Opening balance	50.00	
	Less: Creation of Capital Redemption Reserve	(50.00)	-
	Securities Premium		
	Opening balance	60.00	
	Less: Adjustment for cancellation of equity shares	(60.00)	
	Less: Adjustment for premium on redemption of preference shares	(2.00)	
	Add: Shares issued against ESOP at premium	10.00	8.00
	Capital Redemption Reserve		50.00
	Total		66.20
3	Long term borrowings		
	10% Debentures		4.00
	Less: Cancellation of own debentures		(2.20)
	Total		1.80
4.	Other Current liabilities		
	Opening balance		70.00
	Less: Adjustment for ESOP outstanding		(5.00)
	Total		65.00
5.	Non-current investments		
	Opening balance		120.00
	Less: Investment in own debentures		(2.00)
	Total		118.00
6.	Cash and Cash Equivalents		
	Opening balance		142.00
	Less: Payment to preference shareholders		(22.00)
	Less: Payment to equity shareholders		(90.00)
	Add: Share price received against ESOP		10.00
	Total		40.00

Q.BB.RMP.224: (Nov21) (MTP May23)

SM Limited gives the following information as on 31st March, 2020:

		Rs.
Share capital		
(60,000 Equity Shares of Rs. 10 Each)		6,00,000
Reserve & Surplus:		
Security premium	Rs. 70,000	
General reserve	Rs. 63,000	
Profit and Loss	<u>Rs. 1,40,000</u>	2,73,000
Non-current liability:		
9% debentures (secured)		3,00,000
Current Liabilities:		

Term loan		40,000	
Creditors		65,000	
Provision for taxation		15,000	
		12,93,000	
Property plant and equipment		6,00,000	
Non-current investment		1,50,000	
Current assets:			
Stock	Rs. 2,00,000		
Debtors	Rs. 2,60,000		
Bank	Rs. <u>83,000</u>	5,43,000	12,93,000

The shareholders adopted the resolution on 31st March, 2020 to:

- Buy back 25% of the paid-up capital @ Rs. 15 each.
- Issue 10% debentures of Rs. 60,000 at a premium of 10% to finance the buyback of shares.
- Maintain a balance of Rs. 20,000 in General Reserve.
- Sell investments worth Rs. 1,00,000 for Rs. 80,000.
- Buy back expenses were Rs. 2,000.

You are required to pass necessary journal entries to record the above transactions and prepare Ledger account of Bank.

SOLUTION

In the books of SM Limited

Journal Entries

	Particulars		Dr. Rs.	Cr. Rs.
1.	Equity share capital A/c (15,000 x Rs.10)	Dr.	1,50,000	
	Premium on buyback A/c (15,000 x Rs.5)	Dr.	75,000	
	To Equity shares buy back or Equity shareholders A/c (15,000 x Rs.15) (Being the amount due to equity shareholders on buy back)			2,25,000
2.	Equity shares buy back/Equity shareholders A/c	Dr.	2,25,000	
	To Bank A/c (Being the payment made on account of buy back of 15,000 Equity Shares as per the Companies Act)			2,25,000
3.	Bank A/c	Dr.	66,000	
	To 10 % Debentures A/c			60,000
	To Securities Premium A/c (Being 14 % debentures issued to finance buy back)			6,000
4.	Buyback Expenses A/c	Dr.	2,000	
	To Bank A/c (Buyback expenses paid)			2,000
5.	Bank A/c	Dr.	80,000	
	Profit and Loss A/c (Loss on sale of investment)	Dr.	20,000	
	To Investment A/c (Being investment sold at loss)			1,00,000
6.	General reserve	Dr.	43,000	

	Profit and Loss A/c	Dr.	1,07,000	
	To Capital redemption reserve A/c			1,50,000
	(Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law)			
7.	Securities Premium	Dr.	75,000	
	Profit and Loss A/c	Dr.	2,000	
	To Premium on buyback			75,000
	To Buyback Expenses A/c			2,000
	(Being premium on buyback and buyback expenses charged to securities premium and profit and loss account)			

Bank Account

Particulars	Amt (Rs.)	Particulars	Amt (Rs.)
To Balance b/d	83,000	By Equity Shareholders A/c	2,25,000
To Investment A/c	80,000	By Expenses on buy back of shares	2,000
To 10% Debentures and Securities premium	66,000	By Balance c/d	2,000
Total	2,29,000	Total	2,29,000

Note: It may be noted that as per the provisions of the Companies Act, 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. Issue of debentures has been excluded for the purpose of "specified securities" and the entire amount of Rs. 1,50,000 has been credited to CRR while solving the question.

Q.BB.RMP.225: (EXAM Nov19, RTP Nov21)

X Ltd. furnishes the following summarized Balance Sheet as at 31-03-2018.

Liabilities	(in Rs)	(in Rs)
Share Capital		
Equity Share Capital of Rs 20 each fully paid up	50,00,000	
10,000, 10% Preference Shares of Rs 100 each fully paid up	<u>10,00,000</u>	60,00,000
Reserves & Surplus		
Capital Reserve	1,00,000	
Security Premium	12,00,000	
Revenue Reserve	5,00,000	
Profit and Loss	20,00,000	
Dividend Equalization Fund	<u>5,50,000</u>	43,50,000
Non-Current Liabilities		
12% Debenture		12,50,000
Current Liabilities and Provisions		<u>5,50,000</u>
Total		<u>1,21,50,000</u>
Assets		
Fixed Assets		
Tangible Assets		1,00,75,000

Current Assets		
Investment	3,00,000	
Inventory	2,00,000	
Cash and Bank	15,75,000	20,75,000
Total		1,21,50,000

The shareholders adopted the resolution on the date of the above-mentioned Balance Sheet to:

- (1) Buy back 25% of the paid-up capital and it was decided to offer a price of 20% over market price. The prevailing market value of the company's share is Rs 30 per share.
- (2) To finance the buy-back of shares, company:
 - (a) Issues 3000, 14% debentures of Rs 100 each at a premium of 20%.
 - (b) Issues 2500, 10% preference shares of Rs 100 each.
- (3) Sell investment worth Rs 1,00,000 for Rs 1,50,000.
- (4) Maintain a balance of Rs 2,00,000 in Revenue Reserve.
- (5) Later the company issue three fully paid-up equity share of Rs 20 each by way of bonus share for every 15-equity share held by the equity shareholders.

You are required to pass the necessary journal entries to record the above transactions and prepare Balance Sheet after buy back.

SOLUTION:

In the books of X Limited

Journal Entries

	Particulars		Dr.	Cr.
			Rs	Rs
1.	Bank A/c	Dr.	3,60,000	
	To 14 % Debenture A/c			3,00,000
	To Securities Premium A/c			60,000
	(Being 14 % debentures issued to finance buy back)			
2.	Bank A/c	Dr.	2,50,000	
	To 10% preference share capital A/c			2,50,000
	(Being 10% preference share issued to finance buy back)			
3.	Bank A/c	Dr.	1,50,000	
	To Investment A/c			1,00,000
	To Profit on sale of investment (Being investment sold on profit)			50,000
4.	Equity share capital A/c (62,500 x Rs 20)	Dr.	12,50,000	
	Securities premium A/c (62,500 x Rs 16)	Dr.	10,00,000	
	To Equity shares buy back A/c (62,500 x Rs36)			22,50,000
	(Being the amount due to equity shareholders on buy back)			
5.	Equity shares buy back A/c	Dr.	22,50,000	
	To Bank A/c			22,50,000
	(Being the payment made on account of buyback of 62,500 Equity Shares as per the Companies Act)			
6.	Revenue reserve	Dr.	3,00,000	

	Securities premium	Dr.	2,60,000	
	Profit and Loss A/c	Dr.	4,40,000	
	To Capital redemption reserve A/c*			10,00,000
	(Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law) [12,50,000 less 2,50,000]			
7.	Capital redemption reserve A/c	Dr.	7,50,000	
	To Bonus shares A/c (W.N.1) (Being the utilization of capital redemption reserve to issue 37,500 bonus shares)			7,50,000
8.	Bonus shares A/c	Dr.	7,50,000	
	To Equity share capital A/c			7,50,000
	(Being issue of 3 bonus equity share for every 1 Equity shares held)			

*Alternatively, entry for combination of different amounts (from Revenue reserve, Securities premium and profit and Loss account.) may be passed for transferring the required amount to CRR.

Note: It may be noted that as per the provisions of the Companies Act, 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**. Issue of debentures has been excluded for the purpose of “**specified securities**” and the entire amount of Rs 10,00,000 (after deducting only pref. share capital) has been credited to CRR while solving the question.

Balance Sheet (After buy back and issue of bonus shares)

Particulars	Note No	Amount Rs
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	57,50,000
(b) Reserves and Surplus	2	27,10,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	15,50,000
(3) Current Liabilities		
(a) Trade payables		-
(b) current liabilities & Provisions		5,50,000
Total		1,05,60,000
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment		1,00,75,000
(2) Current assets		
(a) Investments		2,00,000
(b) Inventory		2,00,000
(c) Cash and cash equivalents (W.N. 2)		85,000
Total		1,05,60,000

Notes to Accounts

			Rs
1.	Share Capital		
	Equity share capital (Fully paid-up shares of Rs 20 each)		
	(2,50,000-62,500+37,500 shares)	45,00,000	
	10% preference shares @ Rs 100 each (10,00,000 + 2,50,000)	<u>12,50,000</u>	
2.	Reserves and Surplus		
	Capital Reserve	1,00,000	57,50,000
	Revenue reserve	2,00,000	
	Securities premium	12,00,000	
	Add: Premium on debenture	60,000	
	Less: Adjustment for premium paid on buy back (10,00,000)		
	Less: Transfer to CRR	<u>(2,60,000)</u>	Nil
	Capital Redemption Reserve		
	Transfer due to buy-back of shares from P&L		
	10,00,000		
	Less: Utilisation for issue of bonus shares <u>(7,50,000)</u>	2,50,000	
	Profit & Loss A/c	20,00,000	
	Add: Profit on sale of investment	50,000	
	Less: Transfer to CRR	<u>(4,40,000)</u>	16,10,000
3.	Dividend equalization reserve	<u>(5,50,000)</u>	<u>5,50,000</u> 27,10,000
	Long-term borrowings - 12% Debentures 12,50,000		
	- 14% Debentures	<u>3,00,000</u>	<u>15,50,000</u>

Working Notes:

- Amount of bonus shares = $[(2,50,000 - 25\%)3/15] \times 20 = 37,500 \times 20 = 7,50,000$
- Cash at bank after issue of bonus shares

	Rs
Cash balance as on 30.3.2018	15,75,000
Add: Issue of debenture	3,60,000
Add: issue of preference shares	2,50,000
Add: Sale of investments	<u>1,50,000</u>
	23,35,000
Less: Payment for buy back of shares	<u>(22,50,000)</u>
	<u>85,000</u>

SERIES 300SHARES WITH DIFFERENTIAL RIGHTSQ.BB.SM.301:

W, X, Y and Z hold Equity capital is held by in the proportion of 40:30:10:20. A, B, C and D hold preference share capital in the proportion of 30:40:20:10. If the paid up capital of the company is ₹ 40 Lakh and Preference share capital is ₹ 20 Lakh, find their voting rights in case of resolution of winding up of the company.

SOLUTION

W, X, Y and Z hold Equity capital is held by in the proportion of 40:30:10:20 and A, B, C and D hold preference share capital in the proportion of 30:40:20:10. As the paid up equity share capital of the company is ₹ 40 Lakhs and Preference share capital is ₹ 20 Lakh (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3. The respective voting right of various shareholders will be

W =	$\frac{2}{3} \times \frac{40}{100}$	=	$\frac{4}{15}$
X =	$\frac{2}{3} \times \frac{30}{100}$	=	$\frac{3}{15}$
Y =	$\frac{2}{3} \times \frac{10}{100}$	=	$\frac{1}{15}$
Z =	$\frac{2}{3} \times \frac{20}{100}$	=	$\frac{2}{15}$
A =	$\frac{1}{3} \times \frac{30}{100}$	=	$\frac{1}{10}$
B =	$\frac{1}{3} \times \frac{40}{100}$	=	$\frac{2}{15}$
C =	$\frac{1}{3} \times \frac{20}{100}$	=	$\frac{1}{15}$
D =	$\frac{1}{3} \times \frac{10}{100}$	=	$\frac{1}{30}$

Q.BB.RMP.302: (RTP Nov19, MTP Nov21, EXAM July21)

(a) What is meant by “equity shares with differential rights”. Can preference shares be also issued with differential rights?

(b) L, M, N and O hold Equity capital in the proportion of 30:30:20:20 in AB Ltd. X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10

You are required to identify the voting rights of shareholders in case of resolution of winding up of the company if the paid-up capital of the company is Rs. 80 Lakh and Preference share capital is Rs. 40 Lakh.

SOLUTION

a) Equity shares with Differential Rights means the share with dissimilar rights as to dividend, voting or otherwise. Preference shares cannot be issued with differential rights. It is only the equity shares, which are issued.

b) L, M, N and O hold Equity capital in the proportion of 30:30:20:20 and X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10. As the paid-up equity share capital of the company is Rs. 80 Lakhs and Preference share capital is Rs. 40 Lakh (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3. The respective voting right of various shareholders will be

$$L = \frac{2}{3} \times \frac{30}{100} = \frac{3}{15}$$

$$M = \frac{2}{3} \times \frac{30}{100} = \frac{3}{15}$$

$$N = \frac{2}{3} \times \frac{20}{100} = \frac{2}{15}$$

$$O = \frac{2}{3} \times \frac{20}{100} = \frac{2}{15}$$



$$X = 1/3 \times 40/100 = 2/15$$

$$Y = 1/3 \times 30/100 = 1/10$$

$$Z = 1/3 \times 20/100 = 1/15$$

$$K = 1/3 \times 10/100 = 1/30$$

Q.BB.RMP.303: (Exam Jan21)

Equity Capital is held by Anu, Adi and Arun in the proportion of 30 : 30 : 40 and Preference Share Capital is held by Sonu, Shri and Sanaya in the proportion of 40 : 10 : 50. If the paid up Equity Share Capital of the company is Rs. 60 lakhs and Preference Share Capital is Rs. 30 lakhs, find the proportion and percentage of their voting right in case of resolution of winding up of the company.

SOLUTION

Equity capital is held by Anu, Adi and Arun in the proportion of 30:30:40. Sonu, Shri and Sanaya hold preference share capital in the proportion of 40:10:50. If the paid up equity share capital of the company is Rs. 60 lakhs and Preference share capital is Rs. 30 Lakh, then relative weight in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3.

The respective voting right of various shareholders will be:

Shareholders		Relative weights	Voting Power
Anu	$2/3 \times 30/100$	$3/15$	20.00%
Adi	$2/3 \times 30/100$	$3/15$	20.00%
Arun	$2/3 \times 40/100$	$4/15$	26.67%
Sonu	$1/3 \times 40/100$	$4/30$	13.33%
Shri	$1/3 \times 10/100$	$1/30$	3.33%
Sanaya	$1/3 \times 50/100$	$5/30$	16.67%



Student Notes:-