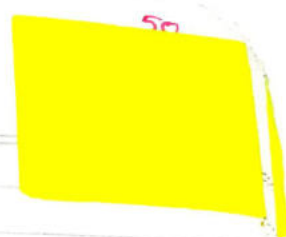


Buy BACK OF SECURITIES

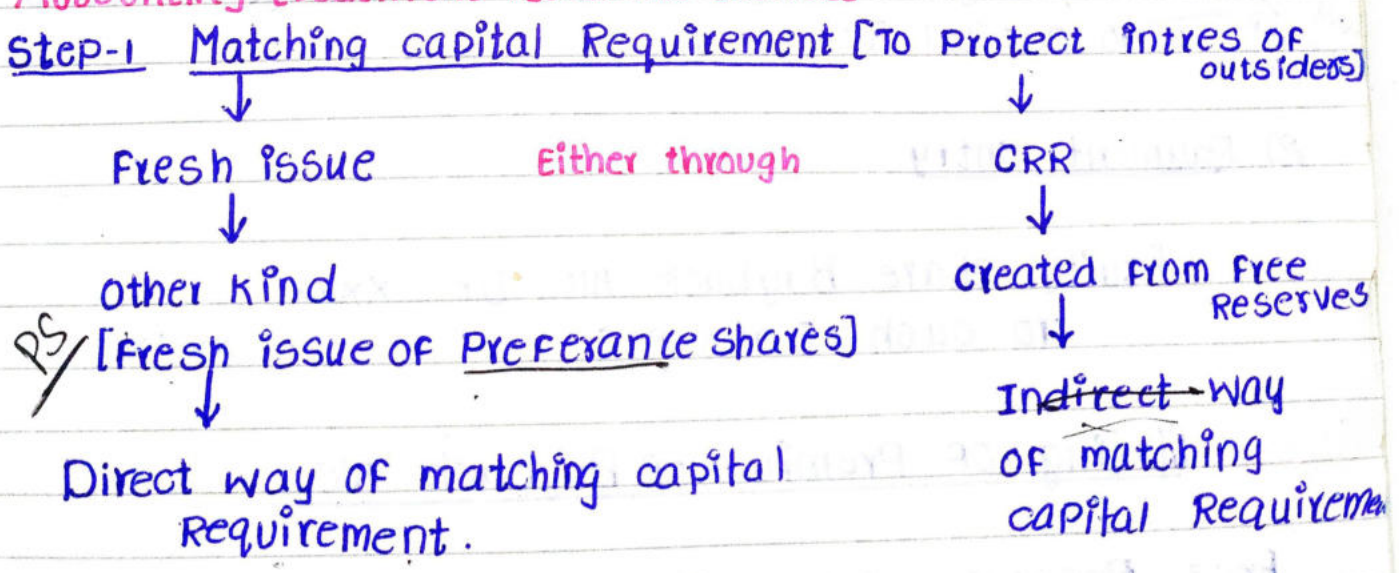


Meaning: Buying back those securities (equity shares) which are issued by the company previously

Buy back of securities:

- a) Applicable only to Equity shares
- b) Similar to Redemption
- c) A company can buy back its own securities from the following
 1. open market
 2. proportionate basis from Existing equity share holders.
 3. From the Scheme of Employee Stock Option Plan (ESOP)

Accounting treatment: [Journal entries]



TOPIC 1: PROMOTION & FORMATION OF A COMPANY

BASIC REQUIREMENTS may be formed by specified number of persons
 1) A company may be formed by specified number of persons
 a) For any lawful purpose and
 b) By subscribing their names to the memorandum and complying with the requirements of the Act.
 c) By complying with the requirements of the Act.
 d) By complying with the requirements of the Act.
 e) By complying with the requirements of the Act.
 f) By complying with the requirements of the Act.
 g) By complying with the requirements of the Act.
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 v) By complying with the requirements of the Act.
 w) By complying with the requirements of the Act.
 x) By complying with the requirements of the Act.
 y) By complying with the requirements of the Act.
 z) By complying with the requirements of the Act.

INTRODUCTION:

A Company is a Separate Legal Entity from its Members.

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e) Pr

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Accounting Treatment

Cash / Bank A/c	Dr	xxxx	Free Reserve A/c	Dr	xxx
To Preference Share Capital A/c		xxxx	To CRR A/c		xxx
To Securities Premium A/c		xxxx			
		(If any)			

Note: How much amount is to be matched for capital Requirement?

→ Face value of Equity Share capital to be bought back.

Step-2 Buyback

1) Due entry

Equity share capital A/c Dr [Face value]

Premium on buyback A/c Dr

To Equity share buyback A/c

[Buyback Price]

To Capital Reserve A/c

Any one will come.

2) Payment entry

Equity share Buyback A/c Dr xxx

To Cash / Bank A/c

xxxx

Step-3 Closing of Premium of Buyback A/c

Free Reserves A/c

Dr

xxxx

To Premium on Buyback of Shares A/c

xxxx

Provisions as Per Section 68 of Companies Act 2013

- 1) For Buy Back Existing Shares **must be Fully Paid up.**
- 2) It is **authorised** by articles of association (AOA).
- 3) Resolutions Required
 - (a) Board Resolution in Board meeting by board of Directors
 - (b) Special Resolution in General meeting by share holders.

Exception: Board Resolution is enough if buyback is $\leq 10\%$ of **Paid up Equity share capital + Free Reserves**

Note: **Free Reserves** For the Purpose of this chapter includes **Securities Premium.**

- 4) Time limit to **complete** the entire buyback of securities **within 1 year** from the date of **Special Resolution.**
- 5) A share which is bought back has to be **Physically destroyed / cancelled** within **7 days** from the date of buy back.
- 6) A company can go for next buy back only **after 1 year** from the date of **closure of previous buy back.**
- 7) A company can issue such kind of shares (same kind) only **after 6 months** from the date of **closure of previous buyback.**

INTRODUCTION:

A Company is a Separate Legal Entity from its Members.

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- BASIC REQUIREMENT WITH RESPECT TO THE FORMATION OF A COMPANY
- 1) A company may be formed by specified number of persons
 - a) For any lawful purpose and
 - b) By subscribing their names to the Memorandum and complying with the requirements of the Act.
 - c) By complying with the requirements of the Act (Statutory Limit):
 - i) A public company must be formed by not less than 7 persons.
 - ii) A private company must be formed by not less than 2 persons.

Exception: A company can issue Bonus shares (or) Discharge Existing Obligations such as Existing scheme of ESOP [Employees Stock Option Plan], conversions of debentures Conversion of Preference shares or Sweat Equity shares.

• How many maximum no of shares that a company can Buy Back.

As per companies Act 2013, companies must satisfy all the following 3 tests and consider whichever is lower. [Least of the no. of shares arrived by performing 3 tests]

Test-1 Shares outstanding tests:

- 1) Ascertain the total no of equity shares outstanding
- 2) maximum no of shares that can be bought back = 25% of o/s Equity shares

Test-2 Resource test:

- 1) Ascertain share holders Funds [Paid up share capital + Free reserves]
- 2) maximum Resources can be utilised for buyback = 25% OF (Paid up share capital + Free Reserves)
- 3) Maximum no of shares that can be bought back = $\frac{\text{maximum resources}}{\text{Buy back Prices}}$

Test-3 Debt equity test: minimum debt equity ratio to be maintained by company after buy back is 2:1 i.e. $\frac{\text{Debt}}{\text{Equity}} = \frac{2}{1}$

minimum equity to be maintained = $\frac{1}{2}$ (Debt)
 → to crack this ICHT follows simultaneous method.

Eq ① Amt transferred to CRR (x) = $\frac{\text{max Permissible}^{\text{bb eqy}} \times \text{Face Value}}{\text{Buyback Price}}$

Eq-2 max Permissible Buy back of equity (y) =
 Present Equity - Amt to be transferred to CRR
 - minimum equity to maintained.

By solving (1) & (2) we will find x and y.

* No. of shares to be bought back = $\frac{\text{max Permissible Buyback}}{\text{Buy Back Price}}$

→ Example: Nominal value = 10, mv = 15, BB Price = 30
 Debt = 1000 cr, present equity = 800 cr
 minimum equity to be maintained after BB = $\frac{1}{2}$ (Debt)
 = $\frac{1}{2}$ (1000)
 = 500

maximum Reduction in equity = 800 - 500 cr
 = 300 cr

Eq:1 $x = \frac{y}{\text{BB Price}} \times \text{Face Value}$

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

$y = 3x \rightarrow \text{①}$

