

BUYBACK OF SECURITIES

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"You can't go back and change the beginning, but you can start where you are and change the ending."

TOPIC 1 INTRODUCTION: BUYBACK OF SHARES

Meaning:

Buyback means purchase of its own shares by a company. When shares are bought back by a company they have to be cancelled by the company. Thus, shares bought back results in decrease in share capital of the company. A company having sufficient cash may decide to buyback its own shares.

Objectives/Advantages of Buyback:

- To increase Earning per share if there is no dilution in company's earnings as the buyback of shares reduces the outstanding number of shares.
- To increase promoters holding as the shares bought back are cancelled & also discourage others to make hostile bid to takeover the company (i.e. to eliminate threats by shareholders who are looking for a controlling stake)
- To support the share price on the stock exchange when the share price in the opinion of company management is less than its worth, especially in depressed market (i.e to take the advantage of undervaluation. For instance, if a company is undervalued due to any microeconomic & macroeconomic reason, it buys its shares back at the current market price & issues those later when the prices go up)
- To pay surplus cash to the shareholders when the company does not need it for the business.

TOPIC 1A BUYBACK OF SHARES: LEGAL PROVISIONS & JOURNAL ENTRIES

Basic Conditions:

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

- the buy-back is authorised by its articles
 - a special resolution has been passed in general meeting of the company authorizing the buy-back
- Exception:** In case the buy back is upto 10% of paid up equity + free reserves, the same may be done with the authorization of the Board Resolution
- There shall be a minimum gap of 1 year in buyback offer from the date of closure of the previous buy back
 - All the shares or other specified securities for buy-back are fully paid-up
 - Every buy-back shall be completed within 12 months from the date of passing the special resolution, or the resolution passed by the board of directors.

The buy-back may be—

- from the existing security holders on a proportionate basis; or
- from the open market; or
- by purchasing the securities issued to employees of the company pursuant to a scheme of stock option or sweat equity.

As per Section 68 (1) of the Companies Act 2013, buy back of shares can be made out of: its free reserves; or the securities premium account; or the proceeds of any shares or other specified securities.

Provided that no buyback 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 other specified securities

Note:

- a) Specified securities include Employees stock option or other securities as may be notified by the Central Government from time to time.
- b) Free Reserves includes Securities Premium Account

PROVISIONS OF SECTION 70 OF THE COMPANIES ACT 2013

- (1) No company shall directly or indirectly purchase its own shares or other specified securities—
 - a. through any subsidiary company including its own subsidiary companies; or
 - b. through any investment company or group of investment companies; or
 - c. if a default is subsisting, in repayment of deposit or interest payable thereon, redemption of debentures or preference shares or payment of dividend to any shareholder or repayment of any term loan or interest payable thereon to any financial institutions or bank. Provided that buy-back is not prohibited if the default is remedied and a period of 3 years has elapsed since the cessation of the default.
- (2) In accordance with schedule III, no company shall directly or indirectly purchase its own shares or other specified securities in case such company has not complied with provisions of Sections 92 (filling of annual return), 123 (payment of dividend within 30 days of declaration), 127 (failure to distribute dividend) and 129 (preparation of financial statement of the company).

Three Test Conditions

1. Shares Outstanding Test:

Maximum Limit of number of equity shares to be bought back = 25% of total Equity shares

2. Resource Test:

Maximum Limit of Amount of bought back = 25% of (Paid up capital & Free reserves)
 No. of shares = Amount calculated above / Buyback Price

3. Debt Equity Ratio Test:

Debt Equity ratio must not be > 2:1 after buyback

i.e. Debt : Equity \leq 2 : 1 after buyback

Minimum Equity after buyback = Debt / 2

Present Equity = Paid up capital + Free Reserves (*Refer Test 2*)

Find no. of shares by making simultaneous equations **or**

No. of Shares = (Present Equity – Minimum Equity) / (Buyback price + Face value)

where Debt = Secured + Unsecured Debt (both long term & short term)
 Equity = Paid up Capital + Free Reserves

Number of Shares to be bought back = Lower of above 3 tests

JOURNAL ENTRIES

| No. | Particulars | Journal Entry |
|-----|--|--|
| 1. | To make partly paid equity shares fully paid up | Equity Share Final Call A/c Dr. To Equity Share Capital A/c Bank A/c Dr. To Equity Share Final Call A/c |
| 2. | To realize investments to provide cash for buyback | Bank A/c Dr. P&L A/c (Loss) Dr. To Investments A/c To P&L A/c (Profit) |
| 3. | To issue Preference shares | Bank A/c Dr. To Preference Share Capital A/c To Securities Premium A/c |
| 4. | To cancel the shares bought back | Equity Share Capital A/c Dr. Premium on Buyback A/c Dr. To Equity Share Buyback A/c Equity Share Buyback A/c Dr. To Bank A/c |
| 5. | For closing (write off) the premium on buyback account | Securities Premium A/c Dr. General (Revenue) Reserve/ P&L A/c Dr. To Premium on Buyback A/c |
| 6. | Transfer to CRR (Capital Redemption Reserve)* | General (Revenue) Reserve A/c Dr. P&L A/c Dr. Free Reserve (any) A/c Dr. To CRR A/c |

***Note:** CRR can be utilized for issuing fully paid bonus shares to its members.

| | |
|---|-----------|
| Face Value of Equity Shares bought back | XX |
| Less: Face Value of shares issued | (XX) |
| Amount to be transferred to CRR | XX |

Free Reserves: Those reserves which are available for distribution of dividend.

Examples:

- Surplus/ P&L A/c
- General/Revenue Reserve
- Dividend Equalisation Reserve
- Any other free reserve

Note:

- ❖ Securities Premium, Revaluation Reserve, Capital Reserve, CRR, DRR etc. are not free reserves.
- ❖ For the purpose of Buyback, Free reserves includes Securities Premium

CREATION OF CRR

Case 1:

Balance sheet

| Liabilities | Lakhs | Assets | Lakhs |
|---------------|-----------|---------------|-----------|
| Share capital | 10 | Sundry Assets | 30 |
| P&L A/c | 10 | | |
| Creditors | 10 | | |
| | <u>30</u> | | <u>30</u> |

Case 2: Buyback of 2 Lacs: No CRR

Balance sheet

| Liabilities | Lakhs | Assets | Lakhs |
|---------------|-------------------------|---------------|-------------------------|
| Share capital | 10 8 | Sundry Assets | 30 28 |
| P&L A/c | 10 | | |
| Creditors | 10 | | |
| | <u>30 28</u> | | <u>30 28</u> |

Case 3: Buyback of 2 Lacs: CRR Created

Balance sheet

| Liabilities | Lakhs | Assets | Lakhs |
|---------------|-------------------------|---------------|-------------------------|
| Share capital | 10 8 | Sundry Assets | 30 28 |
| P&L A/c | 10 | | |
| CRR | | | |
| Creditors | 10 | | |
| | <u>30 28</u> | | <u>30 28</u> |

ASSIGNMENT QUESTIONS

TOPIC 1 BUYBACK OF SHARES

Question 1 _____ Pg no. _____

Sohan Ltd. provides you the following information:

| | |
|----------------------|-------------------------------------|
| Issued capital | 1,00,000 equity shares of ₹ 10 each |
| Reserves and surplus | |
| Capital reserve | ₹ 5,00,000 |
| Securities premium | ₹ 9,00,000 |
| Revenue reserve | ₹ 15,00,000 |

The company resolved to buy 10% of its equity share capital @ ₹ 60 per share. Give the necessary journal entries in the books of Sohan Ltd.

Question 2 *(Inter Jan 2025) (4 Marks)* _____ Pg no. _____

Following information are available in respect of Z Limited as on 31st March, 2024:

| | |
|--|-------------|
| 4,00,000 Equity share capital of ₹ 10 each | ₹ 40,00,000 |
| Capital Reserve | ₹ 20,000 |
| Revenue Reserve | ₹ 50,00,000 |
| Securities Premium | ₹ 6,00,000 |
| Profit and Loss Account | ₹ 19,00,000 |
| Investments | ₹ 40,00,000 |

The company decides to buy back 20% of its Equity capital @ ₹ 15 per share on 1st April, 2024. Buy back is as per provisions of the Companies Act and company passed the necessary resolutions for it. For this purpose, it sold its investments of ₹ 40 lakhs for ₹ 32 lakhs. You are required to pass the necessary journal entries.

Question 3 _____ Pg no. _____

The Balance Sheet of X Ltd. as at 31st March, 2021 is as follows:-

| Liabilities | ₹ | Assets | ₹ |
|----------------------------------|--------------------|-----------------------------|--------------------|
| Share Capital of ₹ 10 each | 50,00,000 | Property, Plant & Equipment | 66,00,000 |
| General Reserve | 6,50,000 | Investments | 18,00,000 |
| Securities Premium | 5,40,000 | Stock | 11,87,000 |
| P&L Account | 3,75,000 | Debtors | 9,60,000 |
| 12% Debentures | 25,00,000 | Cash & Bank Balance | 7,10,000 |
| Term Loan | 13,25,000 | | |
| Current Liabilities & Provisions | 8,67,000 | | |
| | 1,12,57,000 | | 1,12,57,000 |

The shareholders adopted the resolution on the date of above mentioned balance sheet to:-

- a) Buyback 20% of the paid up capital @ ₹ 15 each
 - b) Issue 13% Preference shares of ₹ 5,00,000 at a premium of 10% to finance the buyback of shares
 - c) Issue 10% Debentures of ₹ 2,00,000 at a premium of 10% to finance the buyback of shares
 - d) Maintain a balance of ₹ 3,00,000 in general reserve account
 - e) Sell investments worth ₹ 3,00,000 for ₹ 1,90,000.
 - f) Buyback expenses were ₹ 2,000
- Pass necessary journal entries.

Question 4 **(ICAI Study Material)** Pg no. _____

KG Limited furnishes the following Balance Sheet as at 31st March, 2021.

| | Note | Amount (Lakhs) |
|---|------|----------------|
| A. Equity and Liabilities | | |
| 1. Shareholders' Fund | | |
| (a) Share Capital | 1 | 1,200 |
| (b) Reserves & Surplus | 2 | 810 |
| 2. Non-current Liabilities | | |
| (a) Long Term Borrowings | 3 | 750 |
| 3. Current Liabilities | | |
| (a) Trade Payables | | 745 |
| (b) Other Current Liabilities | | 195 |
| Total | | 3,700 |
| B. Assets | | |
| 1. Non-current assets | | |
| (a) Property, Plant & Equipment & Intangible Assets | | |
| i. Property, Plant & Equipment | 4 | 2,026 |
| (b) Non Current Investments | | 74 |
| 2. Current Assets | | |
| (a) Inventories | | 600 |
| (b) Trade Receivables | | 260 |
| (c) Cash & Cash Equivalents | | 740 |
| Total | | 3,700 |

Notes to Accounts

| | Amount (Lakhs) |
|--|---------------------------------|
| 1. Share Capital Authorised, Issued & Subscribed Capital Equity share capital (fully paid shares of ₹ 10 each) | 1,200 |
| 2. Reserves and Surplus Securities Premium General Reserve Capital Redemption Reserve Profit & Loss Account | 175 265 200 170 810 |
| 3. Long Term borrowings 12% Debentures | 750 |
| 4. Property, Plant & Equipment Land & Building Plant & Machinery | 1,800 226 2,026 |

On 1st April, 2021, 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, 2021, the company achieved the target of buy back. On 30th April, 2021 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

Question 5 *(ICAI Study Material) / (RTP Nov 2018) (Similar)* Pg no. _____

Dee Limited (a non listed company) furnishes the following summarized Balance Sheet as at 31st March, 2021:

| | Note | Amount (000) |
|---|------|---------------|
| A. Equity and Liabilities | | |
| 1. Shareholders' Fund | | |
| (a) Share Capital | 1 | 2,700 |
| (b) Reserves & Surplus | 2 | 9,700 |
| 2. Current Liabilities | | |
| (a) Trade Payables | | 1,400 |
| Total | | 13,800 |
| B. Assets | | |
| 1. Non-current assets | | |
| (a) Property, Plant & Equipment & Intangible Assets | | |
| i. Property, Plant & Equipment | | 9,300 |
| (b) Non Current Investments | | 3,000 |
| 2. Current Assets | | |
| (a) Inventories | | 500 |
| (b) Trade Receivables | | 200 |
| (c) Cash & Cash Equivalents | | 800 |
| Total | | 13,800 |

Notes to Accounts

| | Amount (000) |
|---|-------------------|
| 1. Share Capital | |
| Authorised, Issued & Subscribed Capital | |
| 2,50,000 equity shares of ₹ 10 each | 2,500 |
| 2,000 10% preference shares of ₹ 100 each | 200 |
| (Issued 2 months back for the purpose of buyback) | <u> </u> |
| | 2,700 |
| 2. Reserves and Surplus | |
| Capital Reserve | 1,000 |
| Revenue Reserve | 3,000 |
| Securities Premium | 2,200 |
| Profit & Loss Account | <u>3,500</u> |
| | 9,700 |

The company passed 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 & prepare the Balance Sheet

Question 6 *(ICAI Study Material) / (RTP Nov 2023) / (RTP May 2020) (Similar)* Pg no. _____

The following information from Balance Sheet of Z Ltd. as on 31st March, 2021

| | (in Lakhs) |
|--|------------|
| Share Capital: | |
| Equity shares ₹10 each Fully Paid Up | 16,000 |
| 10% Redeemable Pref. Shares of ₹ 10 each Fully Paid Up | 5,000 |

| | |
|-----------------------------|--------|
| Reserves & Surplus | |
| Capital Redemption Reserve | 2,000 |
| Securities Premium | 1,600 |
| General Reserve | 12,000 |
| Profit & Loss Account | 600 |
| Secured Loans: | |
| 9% Debentures | 10,000 |
| Current Liabilities: | |
| Trade payables | 4,600 |
| Sundry Provisions | 2,000 |
| Property, Plant & Equipment | 28,000 |
| Investments | 4,700 |
| Cash at Bank | 4,600 |
| Other Current Assets | 16,500 |

On 1st April, 2021 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 10% of its Equity Shares at ₹ 20 per Share. In order to make cash available, the Company sold all the Investments for ₹ 5,000 lakhs.

You are required to

- pass journal entries for the above and
- prepare the Company's Balance sheet immediately after buyback of equity shares & redemption of preference shares.

Question 7 (RTP May 2018)/ (RTP May 2022) Pg no. _____

Complicated Ltd.(unlisted company) gives following information as on 31st March, 2021:

| Liabilities | Amount |
|---|------------------|
| Equity shares of ₹ 10 each fully paid up | 13,50,000 |
| 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 (Long Term- Unsecured) | 10,00,000 |
| Current maturities of long term borrowings | 16,50,000 |
| Application money received for allotment due for refund | 2,00,000 |
| | 86,50,000 |
| Property, Plant & Equipment | 46,50,000 |
| Current Assets | 40,00,000 |
| | 86,50,000 |

The Company wants to buy back 25,000 equity shares of ₹ 10 each, on 1st April, 2021 at ₹ 20 per share. Buy back of shares is duly authorised 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. Pass necessary journal entries and prepare the Balance Sheet after buy back of shares.

Question 8 *(ICAI Study Material)* Pg no. _____

Extra Ltd. (a non listed company) furnishes you with the following Balance Sheet as on 31st March, 2021:

| | Note | Amount (Lakhs) |
|---|------|----------------|
| A. Equity and Liabilities | | |
| 1. Shareholders' Fund | | |
| (a) Share Capital | 1 | 120 |
| (b) Reserves & Surplus | 2 | 118 |
| 2. Non-current Liabilities | | |
| (a) Long Term Borrowings | 3 | 4 |
| 3. Current Liabilities | | |
| (a) Trade Payables | | 70 |
| Total | | 312 |
| B. Assets | | |
| 1. Non-current assets | | |
| (a) Property, Plant & Equipment & Intangible Assets | | |
| i. Property, Plant & Equipment | | 50 |
| (b) Non Current Investments | | 120 |
| 2. Current Assets | | |
| (a) Cash & Cash Equivalents | | 142 |
| Total | | 312 |

Notes to Accounts

| | Amount (Lakhs) |
|--|----------------|
| 1. Share Capital | |
| Authorised, Issued & Subscribed Capital | |
| Equity shares of ₹ 10 each fully paid up | 100 |
| 9% preference shares of ₹ 100 each fully paid up | 20 |
| | <u>120</u> |
| 2. Reserves and Surplus | |
| Capital Reserve | 8 |
| Revenue Reserve | 50 |
| Securities Premium | 60 |
| | <u>118</u> |
| 3. Long Term borrowings | |
| 10% Debentures | 4 |

- (i) The company redeemed the preference shares at a premium of 10% on 1st April, 2021.
- (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, 2021.
- (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 1.04.2021 employees exercised their options for 50,000 shares.
- Pass the journal entries to record the above & Prepare Balance Sheet as at 01.04.2021.

TOPIC 2 BUYBACK OF SHARES: 3 Test Conditions

Question 9 *(ICAI Study Material)*

Pg no. _____

Following is the Balance Sheet of Competent Limited as on 31st March, 2021:

| | Note | Amount |
|---|------|------------------|
| A. Equity and Liabilities | | |
| 1. Shareholders' Fund | | |
| (a) Share Capital | 1 | 12,50,000 |
| (b) Reserves & Surplus | 2 | 18,75,000 |
| 2. Non-current Liabilities | | |
| (a) Long Term Borrowings | 3 | 28,75,000 |
| 3. Current Liabilities | | |
| (a) Other Current Liabilities | | 16,50,000 |
| Total | | 76,50,000 |
| B. Assets | | |
| 1. Non-current assets | | |
| (a) Property, Plant & Equipment & Intangible Assets | | |
| i. Property, Plant & Equipment | 4 | 46,50,000 |
| 2. Current Assets | | |
| (a) Other Current Assets | | 30,00,000 |
| Total | | 76,50,000 |

Notes to Accounts

| | Amount |
|---|---|
| 1. Share Capital Authorised, Issued & Subscribed Capital Equity share capital (fully paid shares of ₹ 10 each) | 12,50,000 |
| 2. Reserves and Surplus Securities Premium Profit & Loss Account Revenue Reserve | 2,50,000 1,25,000 15,00,000 18,75,000 |
| 3. Long Term borrowings 14% Debentures Unsecured Loans | 18,75,000 10,00,000 28,75,000 |
| 4. Property, Plant & Equipment Land & Building Plant & Machinery Furniture & Fittings Net carrying value | 19,30,000 18,00,000 9,20,000 46,50,000 |

The company wants to buy back 25,000 equity shares of ₹ 10 each, on 1st April, 2021 at ₹ 20 per share. Buy back of shares is duly authorized by its articles and necessary resolution 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 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.

Question 10 *(ICAI Study Material)* Pg no. _____

Perrotte Ltd. (non listed company) has the following Capital Structure as on 31.03.2021:

| S.No. | Particulars | ₹ In crores) | |
|-------|---|--------------|-------|
| (1) | Equity Share Capital (Shares of ₹ 10 each fully paid) | - | 330 |
| (2) | Reserves and Surplus | | |
| | General Reserve | 240 | - |
| | Securities Premium Account | 90 | - |
| | Profit & Loss Account | 90 | - |
| | Infrastructure Development Reserve | 180 | 600 |
| (3) | Loan Funds | | 1,800 |

The Shareholders of Perrotte Ltd., on the recommendation of their Board of Directors, have approved on 12.09.2021 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 ₹ 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 ₹ 1,200 crores or ₹ 1,500 crores.

Assuming that the entire buy back is completed by 09.12.2021, show the accounting entries in the company's books in each situation.

Question 11 *(Inter Dec 2021) (10 Marks)* Pg no. _____

Mohan Ltd. furnishes the following summarised Balance Sheet as on 31st March 2021,

| | Amount (₹ in Lakhs) |
|--|------------------------|
| Equity & Liabilities: | |
| Shareholder's Fund | |
| Share Capital | |
| Equity Shares of 10 each fully paid up | 780 |
| 6% Redeemable Preference shares of 50 each fully paid up | 240 |
| Reserve & Surplus | |
| Capital Reserve | 58 |
| General Reserve | 625 |
| Security Premium | 52 |
| Profit & Loss | 148 |
| Revaluation Reserve | 34 |
| Infrastructure Development Reserve | 16 |
| Non Current Liabilities | |
| 7% Debentures | 268 |
| Unsecured Loans | 36 |
| Current Liabilities | |
| Total | 2652 |

| | |
|---------------------------------------|-------------|
| Assets : | |
| Non Current Assets | |
| Plant and Equipment less depreciation | 725 |
| Investment at cost | 720 |
| Current Assets | 1207 |
| Total | 2652 |

Other Information :

- The Company redeemed Preference shares at a premium of 10% on 1st April, 2021.
- It is also offered buyback the maximum permissible number of Equity shares of ₹10 each at ₹30 per share on 2nd April, 2021.
- The payment for the above was made out of available account balance, which appeared as a part of the current assets.
- The company had investment in own Debentures costing ₹60 lakhs (face value ₹75 lakhs). These Debenture were cancelled on 2nd April, 2021.
- On 4th April 2021 company issued one fully paid up equity share of ₹10 each by way of bonus for every five equity shares held by the shareholders.

You are required to :

- Calculate maximum possible number of equity shares that can be bought back as per the Companies Act, 2013 and
- Record the Journal Entries for the above mentioned information.

Solution

- Statement determining the maximum number of shares to be bought back

Number of shares (in lakhs)

| Particulars | When loan fund is ₹ 304 lakhs |
|---|-------------------------------|
| Shares Outstanding Test (W.N.1) | 19.5 |
| Resources Test (W.N.2) | 11.175 |
| Debt Equity Ratio Test (W.N.3) | 29.725 |
| Maximum number of shares that can be bought back [least of above] | 11.175 |

Thus, the company can buy 11,17,500 Equity shares at ₹ 30 each.

Working Notes:

1. Shares Outstanding Test

| Particulars | (Shares in lakh) |
|-------------------------------|------------------|
| Number of shares outstanding | 78 |
| 25% of the shares outstanding | 19.5 |

2. Resources Test

| Particulars | |
|--|--------|
| Paid up capital (₹ in lakh) | 780 |
| Free reserves (₹ in lakh) (625+52+148-24-240*) | 561 |
| Shareholders' funds (₹ in lakh) | 1341 |
| 25% of Shareholders fund (₹ in lakh) | 335.25 |
| Buy-back price per share | 30 |
| Number of shares that can be bought back | 11.175 |

*Amount transferred to CRR is excluded from free reserves. Premium on redemption also reduced.

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

| | Particulars | ₹ In lakh |
|-----|---|-----------|
| (a) | Loan funds (₹) | 304 |
| (b) | Minimum equity to be maintained after buy- back in ratio of 2:1 (a/2) | 152 |
| (c) | Present equity shareholders fund (₹) | 1341 |
| (d) | Future equity shareholders fund (₹) (see W.N.4) (1341-297.25) | 1043.75 |
| (e) | Maximum permitted buy-back of Equity (₹) [(d) – (b)] | 891.75 |
| (f) | Maximum number of shares that can be bought back @ ₹ 30 per share | 29.725 |
| | As per the provisions of the Companies Act, 2013, company | Qualifies |

Alternatively, when current liabilities are considered as part of loan funds, in that case Debt Equity Ratio Test will be done as follows:

| | Particulars | ₹ in lakh |
|-----|--|-----------|
| (a) | Loan funds (₹) | 699 |
| (b) | Minimum equity to be maintained after buy-back in ratio of 2:1 (a/2) | 349.5 |
| (c) | Present equity shareholders fund (₹) | 1341 |
| (d) | Future equity shareholders fund (₹) (see W.N.4) (1341-247.875) | 1093.125 |
| (e) | Maximum permitted buy-back of Equity (₹) [(d) – (b)] | 743.625 |
| (f) | Maximum number of shares that can be bought back @ ₹ 30 per share | 24.7875 |
| | As per the provisions of the Companies Act, 2013, company | Qualifies |

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

$$= (1341 - x) - 152 = y \quad = 1189 - x = y(1)$$

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

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

by solving the above two equations we get $x = ₹ 297.25$ and $y = ₹ 891.75$

Alternatively, when current liabilities are considered as part of loan fund, in that case

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

$$= (1341 - x) - 349.5 = y \quad = 991.5 - x = y \quad (1)$$

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

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

by solving the above two equations we get $x = 247.875$ and $y = 743.625$

*Loan funds have been taken without considering current liabilities. Alternatively, If current liabilities are considered, then the maximum number of shares that can be bought back as per debt equity ratio test will be 24.7875 lakhs.

(ii) Journal Entries for Buy Back (₹ in lakhs)

| Date | Particulars | Debit | Credit |
|-------------------|---|-------|--------|
| 2021 1st April | 6% Redeemable preference share capital A/c Dr. | 240 | |
| | Premium on redemption of preference shares A/c Dr | 24 | |
| | To Preference shareholders A/c | | 264 |
| | (Being preference share capital transferred to share holders account) | | |

| | | | | |
|--|---|-----|--------|--------|
| 1st April | Preference shareholders A/c | Dr. | 264 | |
| | To Bank A/c | | | 264 |
| | (Being payment made to shareholders) | | | |
| 1st April | General Reserve or P&L A/c* | Dr. | 24 | |
| | To Premium on redemption of preference shares A/c | | | 24 |
| | (Being premium on redemption of preference shares adjusted through securities premium) | | | |
| 1st April | General reserve A/c | Dr. | 240 | |
| | To Capital redemption reserve A/c | | | 240 |
| | (Being creation of capital redemption reserve to the extent of the face value of preference shares redeemed) | | | |
| 2nd April | Equity share capital A/c | Dr. | 111.75 | |
| | Premium on BuyBack A/c | Dr. | 223.50 | |
| | To Equity Shares buy-back A/c | | | 335.25 |
| (Being cancellation of shares bought back) | | | | |
| 2nd April | Equity shares buy-back A/c | Dr. | 335.25 | |
| | To Bank A/c | | | 335.25 |
| | (Being 11.175 lakhs equity shares of ₹ 10 each bought back @ ₹ 30 per share) | | | |
| 2nd April | Securities Premium A/c | Dr. | 52 | |
| | General Reserve or P&L A/c | Dr. | 171.50 | |
| | To Premium on BuyBack A/c | | | 223.50 |
| (Being premium on buyback written off) | | | | |
| 2nd April | General reserve A/c | Dr. | 111.75 | |
| | To Capital redemption reserve A/c | | | 111.75 |
| | (Being creation of capital redemption reserve to the extent of the face value of equity shares bought back) | | | |
| 2nd April | 7% Debentures A/c | Dr. | 75 | |
| | To Investment (own debentures) A/c | | | 60 |
| | To Profit on cancellation of own debentures A/c | | | 15 |
| | (Being cancellation of own debentures costing ₹ 60 lakhs, face value being ₹ 75 lakhs and the balance being profit on cancellation of debentures) | | | |
| 4th April | Capital Redemption Reserve | Dr. | 133.65 | |
| | To Bonus Shares A/c | | | 133.65 |
| | (Being issue of one bonus equity share for every five equity shares held) | | | |
| 4th April | Bonus shares A/c | Dr. | 133.65 | |
| | To Equity share capital A/c | | | 133.65 |
| | (Being bonus shares issued) | | | |

Working Note: Bonus Share to be issued = 66.825 ($78 - 11.175$) lakh shares divided by $5 = 13.365$ lakh shares.

Note: *Securities premium has not been utilized for the purpose of premium payable on redemption of preference shares assuming that the company referred in the question is governed by Section 133 of the Companies Act, 2013 and complies with the Accounting Standards prescribed for them. Alternative entry considering otherwise is also possible by utilizing securities premium amount.

PRACTICE QUESTIONS

TOPIC 1 BUYBACK OF SHARES

Question 1 *(RTP Nov 2019)/ (RTP Nov 2022)/ (RTP Sep 2024)* Pg no. _____

Umesh Ltd. (a listed company) resolves to buy back 4 lakhs of its fully paid equity shares of ₹ 10 each at ₹ 22 per share from the open market. For the purpose, it issues 1 lakh 11 % preference shares of ₹ 10 each at par, the entire amount being payable with applications. The company uses ₹ 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.

Question 2 *(Inter Jan 2021) (5 Marks)* Pg no. _____

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

- (i) Sold its investments of ₹ 30,00,000 for ₹ 25,00,000.
- (ii) Issued 20,000, 12% preference shares of ₹ 100 each at par, the entire amount being payable with application.
- (iii) Used ₹ 15,00,000 of its Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back.

(iv) The company has necessary cash balance for the payment to shareholders.

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

Question 3 *(ICAI Study Material)* Pg no. _____

M Ltd. furnishes the following summarized Balance Sheet as at 31st March, 2021:

| | Note | Amount (000) |
|---|------|---------------|
| A. Equity and Liabilities | | |
| 1. Shareholders' Fund | | |
| (a) Share Capital | 1 | 5,000 |
| (b) Reserves & Surplus | 2 | 6,310 |
| 2. Non-current Liabilities | | |
| (a) Long Term Borrowings | 3 | 400 |
| 3. Current Liabilities | | |
| (a) Trade Payables | | 40 |
| Total | | 11,750 |
| B. Assets | | |
| 1. Non-current assets | | |
| (a) Property, Plant & Equipment & Intangible Assets | | |
| i. Property, Plant & 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 & Cash Equivalents | | 1,000 |
| Total | | 11,750 |

Notes to Accounts

| | | Amount (000) |
|----|---|--|
| 1. | Share Capital Authorised, Issued & Subscribed Capital 3,00,000 equity shares of ₹ 10 each 20,000 9% preference shares of ₹ 100 each | 3,000 2,000 5,000 |
| 2. | Reserves and Surplus Capital Reserve Revenue Reserve Securities Premium Profit & Loss Account | 10 4,000 500 1,800 6,310 |
| 3. | Long Term borrowings 10% Debentures | 400 |
| 4. | Property, Plant & Equipment Cost Less: Provision for Depreciation | 3,000 (250) 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.

Question 4 *(Inter Nov 2022) (5 Marks) / (RTP May 2019) (Sim.)* Pg no. _____

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

| | Particulars | Notes | ₹ (in Lakhs) |
|----|-----------------------------------|-------|---------------|
| | Equity and Liabilities | | |
| 1. | 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 assets | | |
| | (a) Property, Plant and Equipment | | 12,760 |
| | (b) Non-current Investments | | 740 |
| 2. | Current assets | | |
| | (a) Inventories | | 6,000 |
| | (b) Trade receivables | | 2,600 |
| | (c) Cash and cash equivalents | | 7,400 |
| | Total | | 29,500 |

Notes to accounts:

| | Particulars | ₹ (in Lakhs) |
|----|--|--------------|
| 1. | Share Capital | |
| | Authorized, issued and subscribed capital | |
| | Equity share capital (fully paid-up shares of ₹ 10 each) | 12,000 |
| 2. | Reserves and Surplus: | |

| | |
|----------------------------|--------------|
| Securities premium | 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.

Question 5 *(RTP May 2021) / (RTP May 2024)* Pg no. _____

Following is the Summarized Balance Sheet of M/s. Vriddhi Infra Ltd. as on 31st March, 2021:

| Equity & Liabilities | Amount | Assets | Amount |
|---|------------------|-------------------------------|------------------|
| Shareholders Fund | | Non Current Assets | |
| (a) Share Capital: | | (a) PPE | |
| 1,00,000 Equity Sh. of 10 each | 10,00,000 | Land & Building | 21,50,000 |
| (b) Reserve & Surplus: | | Plant & Machinery | 15,00,000 |
| Securities Premiums | 3,00,000 | (b) Non- current Investment | 2,00,000 |
| General Reserve | 2,50,000 | | |
| Profit & Loss A/c (Surplus) | 1,50,000 | Current Assets | |
| Non-Current Liabilities | | (a) Trade Receivables | 5,50,000 |
| Long-Term Borrowings: | | (b) Inventories | 1,80,000 |
| 10% Debentures (Secured by floating charge on all assets) | 20,00,000 | (c) Cash and Cash Equivalents | 40,000 |
| Unsecured Loans | 8,00,000 | | |
| Current Liability & Provisions | | | |
| Trade Payables | 1,20,000 | | |
| | 46,20,000 | | 46,20,000 |

On 21st April, 2021 the Company announced the buy back of 15,000 of its equity shares @ ₹ 15 per share. For this purpose, it sold all its investment for ₹ 2.50 lakhs.

On 25th April, 2021, the company achieved the target of buy back. On 1st May, 2021 the company issued one fully paid up share of ₹ 10 each by way of bonus for every eight equity shares held by the equity shareholders.

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

Question 6 *(Inter May 2018) (10 Marks)* Pg no. _____

Alpha Ltd. furnishes the following summarized Balance Sheet as at 31st March, 2021:

| | ₹ In Lakhs | ₹ In Lakhs |
|--|------------|------------|
| Equity & Liabilities | | |
| Shareholders' Funds | | |
| Equity share capital (fully paid up shares of ₹ 10 each) | | 2,400 |
| Reserves and Surplus | | |
| Securities Premium | 350 | |
| General Reserve | 530 | |
| Capital Redemption Reserve | 400 | |
| Profit & Loss Account | 340 | 1,620 |
| Non-current Liabilities | | |
| 12% Debentures | | 1,500 |
| Current Liabilities | | |

| | | |
|-----------------------------|-------|--------------|
| Trade Payables' | 1,490 | |
| Other Current Liabilities | 390 | 1,880 |
| Total | | 7,400 |
| Assets | | |
| Non-current Assets | | |
| Property, Plant & Equipment | | 4,052 |
| Current Assets | | |
| Current Investments | 148 | |
| Inventories | 1,200 | |
| Trade Receivables | 520 | |
| Cash and Bank | 1,480 | 3,348 |
| Total | | 7,400 |

- (i) On 1st April, 2021, the company announced buy-back of 25% of its equity shares @ ₹ 15 per share. For this purpose, it sold all its investment for ₹ 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 ₹ 10 each by way of bonus for every four equity shares held by the equity shareholders by capitalization of Capital Redemption Reserve.

Pass necessary journal entries and prepare the Balance Sheet of Alpha Ltd. after bonus issue.

Question 7 *(ICAI Study Material)* Pg no. _____

Anu Ltd. (a non listed company) furnishes you with the following summarized balance sheet as at 31st March, 2021:

| | Note | Amount (crores) |
|---|------|-----------------|
| A. Equity and Liabilities | | |
| 1. Shareholders' Fund | | |
| (a) Share Capital | 1 | 100 |
| (b) Reserves & Surplus | 2 | 300 |
| 2. Current Liabilities | | |
| (a) Trade Payables | | 40 |
| Total | | 440 |
| B. Assets | | |
| 1. Non-current assets | | |
| (a) Property, Plant & Equipment & Intangible Assets | | |
| i. Property, Plant & Equipment | 3 | - |
| (b) Non Current Investments | 4 | 100 |
| 2. Current Assets | | |
| (a) Trade Receivables | | 140 |
| (b) Cash & Cash Equivalents | | 200 |
| Total | | 440 |

Notes to Accounts

| | Amount (crores) |
|---|-----------------|
| 1. Share Capital | |
| Authorised, Issued & Subscribed Capital | |
| Equity shares of ₹ 10 each | 25 |
| 12% preference shares of ₹ 100 each | 75 |
| | <u>100</u> |

| | | |
|----|--|------------------------|
| 2. | Reserves and Surplus Capital Reserve Revenue Reserve Securities Premium | 15 260 25 300 |
| 3. | Property, Plant & Equipment Cost Less: Provision for Depreciation | 100 (100) Nil |
| 4. | Non Current Investments At Cost (Market Value 400 crores) | 100 |

The company redeemed preference shares on 1st April, 2021. 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:

- Pass journal entries to record the above.
- Prepare balance sheet as at 1.4.2021.

Question 8 **(RTP May 2023)** Pg no. _____

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

| | | (₹ in Lakhs) |
|--|------|--------------|
| Share Capital: | | 300 |
| Authorised | | |
| 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 |

- The company redeemed preference shares at a premium of 4% on 1st April, 2022.
- 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 bank balances, which appeared as a part of current assets.

You are asked to:

- Pass journal entries to record the above.
- Prepare balance sheet as at 01.04.2022.

Question 9 **(Inter Nov 2019) (15 Marks) / (RTP Nov 2021)** Pg no. _____

X Ltd. furnishes the following summarized Balance Sheet as at 31-03-2021.

| | Amount (in ₹) | |
|---|---------------|-----------|
| Equity & Liabilities | | |
| Share Capital: | | |
| Equity Shares of ₹ 20 each fully paid up | 50,00,000 | |
| 10,000, 10% Preference Shares of ₹ 100 each fully paid up | 10,00,000 | 60,00,000 |

| | | |
|--|-----------|--------------------|
| Reserves and surplus: | | |
| Capital Reserve | 1,00,000 | |
| Securities premium | 12,00,000 | |
| Revenue Reserve | 5,00,000 | |
| Profit and loss account | 20,00,000 | |
| Dividend Equalization Fund | 5,50,000 | 43,50,000 |
| Non-Current Liabilities | | |
| 12% Debentures | | 12,50,000 |
| Current Liabilities and Provisions | | 5,50,000 |
| | | 1,21,50,000 |
| Assets | | |
| Non Current Assets | | |
| Property, Plant & Equipment & Intangible Assets | | |
| Property, Plant & Equipment | | 1,00,75,000 |
| Current assets | | |
| Investment | 3,00,000 | |
| Inventory | 2,00,000 | |
| Cash & Bank | 15,75,000 | 20,75,000 |
| | | 1,21,50,000 |

The shareholders adopted the resolution on the date of 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 ₹ 30 per share.
- (2) To finance the buy-back of shares, company:
 - (a) Issues 3000, 14% debentures of ₹ 100 each at a premium of 20%.
 - (b) Issues 2500, 10% preference shares of ₹ 100 each.
- (3) Sell investment worth ₹ 1,00,000 for ₹ 1,50,000.
- (4) Maintain a balance of ₹ 2,00,000 in Revenue Reserve.
- (5) Later the company issue three fully paid up equity share of ₹ 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.

TOPIC 2 BUYBACK OF SHARES: 3 Test Conditions

Question 10 *(Inter May 2019) (10 Marks)*

Pg no. _____

Following is the summarized Balance Sheet of Super Ltd. as on 31st March, 2021.

| | Amount (in ₹) |
|--|------------------|
| Equity & Liabilities | |
| Share Capital: | |
| Equity Shares of ₹ 10 each fully paid up | 17,00,000 |
| Reserves and surplus: | |
| Revenue reserves | 23,50,000 |
| Securities premium | 2,50,000 |
| Profit and 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 | 15,50,000 |
| | 93,00,000 |

| | | |
|--|--|------------------|
| Assets | | |
| Non Current Assets | | |
| Property, Plant & Equipment & Intangible Assets | | |
| Property, Plant & Equipment | | 58,50,000 |
| Current assets | | |
| Current assets | | 34,50,000 |
| | | 93,00,000 |

Super Limited wants to buy back 35,000 equity shares of ₹ 10 each fully paid up on 1st April, 2021 at ₹ 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

Question 11 *(Inter Sep 2024) (7 Marks)* Pg no. _____

Aerodots Ltd. has the following capital structure as on 31.03.2024 :

| Particulars | Amount (₹ in thousands) |
|--|----------------------------|
| Equity Share Capital (shares of ₹ 10 each) | 600 |
| Reserves: | |
| General Reserve | 540 |
| Securities Premium | 200 |
| Profit and Loss | 100 |
| Revaluation Reserve | 30 |
| Investment Allowance Reserve (Statutory Reserve) | 75 |
| Infrastructure Development Reserve | 25 |
| Loan Funds | 2000 |

On 1st April, 2024 the company wants to buy back 14,000 equity shares of ₹ 10 each at ₹ 30 per Equity share. Buy Back of shares is duly authorized by its articles and necessary resolution has been passed by the company.

You are required to calculate maximum permissible number of equity shares that can be bought back.

Question 12 *(ICAI Study Material)* Pg no. _____

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

| S.No. | Particulars | ₹ in crore | ₹ in crore |
|-------|--|------------|------------|
| | | Situation | Situation |
| (1) | Equity Share Capital (Shares of ₹ 10 each fully paid) | 1,200 | 1,200 |
| (2) | Reserves and Surplus | | |
| | General Reserve | 1,080 | 1,080 |
| | Securities Premium Account | 400 | 400 |
| | Profit & Loss Account | 200 | 200 |
| | Infrastructure Development Reserve (Statutory reserve) | 320 | 320 |
| (3) | Loan Funds | 3,200 | 6,000 |

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

Question 13 *(Inter July 2021) (15 Marks)* Pg no. _____

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

| Particulars | Situation 1 | Situation 2 |
|--|-------------|-------------|
| Equity Share Capital (Shares of ₹ 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 ₹ 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.

Question 14 *(RTP Nov 2020) / (ICAI Study Material)* Pg no. _____

Pratham Ltd. (a non-listed company) has following Capital structure as on 31st March, 2021:

| 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, maximum number of shares that can be bought back in the light of above information, when offer price for buy back is ₹ 30 per share

Question 15 *(Inter May 2022) (10 Marks)* Pg no. _____

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

| | Particulars | ₹ in Crores | ₹ in Crores |
|-----|--|-------------|-------------|
| (1) | Share Capital: | | 462 |
| | (Equity Shares of ₹ 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 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 ₹ 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 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 ₹ 1,680 Crores or ₹ 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.

Question 16 : *(Inter May 2023) (10 Marks)* Pg no. _____

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 |
| Reserve and Surplus: | |
| General Reserve | 720 |
| Securities Premium Account | 270 |
| Profit & Loss Account | 270 |
| Infrastructure development Reserve | 540 |
| Loan Funds | 5,400 |

On the recommendation of the Board of Directors, the shareholders of the company have approved on 2nd September 2022 a proposal to buyback 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 value. 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 bought back in the light of the above information and also under a situation where the loan funds of the company were either ₹ 3600 lakh or ₹ 4500 lakh.

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

Question 17 : *(Inter Nov 2023) (5 Marks)* Pg no. _____

The following is the extract of Balance Sheet of Yellow Limited as on 31st March 2023.

| Particulars | Amount (₹) |
|-------------------------------------|--------------------|
| 4,00,000 Equity shares of ₹ 10 each | 40,00,000 |
| General Reserve | 48,00,000 |
| Profit & Loss Account | 10,00,000 |
| Securities Premium | 18,00,000 |
| Secured Loans | 60,00,000 |
| Unsecured Loans | 32,00,000 |
| Current Liabilities | 28,00,000 |
| Total | 2,36,00,000 |
| Property, Plant and Equipment | 90,00,000 |
| Investments | 18,00,000 |
| Current Assets | 1,28,00,000 |
| Total | 2,36,00,000 |

The company intends to buy-back 80,000 equity shares of ₹ 10 each at a premium of 150%.

You are required to state whether the company can buy back equity shares.

Question 18 : *(ICAI Study Material) / (Inter May 2023) (5 Marks)* Pg no. _____

What are the conditions to be fulfilled by a Joint Stock Company to buy-back its equity shares as per Companies Act, 2013? Explain.