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शुभ 卐 लाभ

Buyback

#1 Introduction

What

it means Co. buys its own equity shares from market & cancells it immediately thereby reducing its sh. capital.

Why

↓

i) To ↑ EPS
ii) To ↑ promotors holding
iii) To discourage hostile bid.
iv) stop M.P. from failing
v) To pay surplus cash to sh.

How to do.

↓

Sec. 68 will be followed of Co. Act 2013.

#2 Section 68 of Co. Act 2013.

3 general conditions

i) Co. cannot buyback partly paid up equity shares

ii) Co. cannot use proceeds of fresh issue of E.sh. to buy back

iii) after buyback of E.sh. co. cannot issue E.sh. for cash for next 12 months.

3 practical conditions

i) O/s test

$\frac{\text{no. of equity shares b.b.}}{} \leq 25\%$ of Equity shares.

ii) Resource test.

Funds applied for b.b $\leq 25\%$ of Equity.

iii) Debt-equity test.

Debt equity test post after b.b. $\geq \frac{2}{1}$ or 2:1

J.F.

#3

note :- funds applied for B.B. means money used in b.b

no. of E.sh b.b. × M.P. P.sh.

(B.B. price)

#3 Journal Entries.

a) Shares B.B. Dr xxx
To Bank. xxx
(no. of E.sh b.b. × M.P. P.sh.)

b) C.R.R. ⇒ N.V. of E.sh.b.b. − N.V. of f. issue of pref.sh/deb. b.b.

D.P/S.P. Dr
To C.R.R.

c) ESC Dr
SP/DP Dr
To sh. b.b.

N.V. of E.sh.b.b.

#4 notes for exams.

i) D.P.

- P/L
- G.R.
- Res. fund
- Div. equalisation
- Rev. Res.

ii) Equity

ESC + PSC + SP + DP.

(CRR is not part of it)

iii) Debt.

All LTB. + current maturities of LTB.

iv) Post b.b. Equity

⇒ Equity before b.b. (Total Eq.) − funds applied for b.b. − N.V. of sh. b.b

v) Steps to solve

Step 1 W.N. & details.

Step 2 Conditions.

Step 3 J.E.

Step 4 B/S.

eg-1

no. of Esh. b.b. = 200
B.B. = ₹ 25 p.sh.
N.V. = ₹ 10
DP & SP = sufficient

1) ESC Dr 2000 (200 x ₹10)
DP & SP Dr 3000 (B/f)
To S.B.B. 5000
(200 x 25)

→ red^n in equity by ₹ 5000
↓
Funds for b.b.

2) DP & SP Dr 2000 → we can say that equity ↓ 2000
To CRR. 2000

⇒ N.V. of sh. B.B.

3) S.B.B. Dr 5000
To Bank 5000

Illustration 6

Perrotte Ltd. (a non-listed company) has the following Capital Structure as on 31.03.20X1:

	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 12.09.20X1 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 Development 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 09.12.20X1, show the accounting entries in the company's books in each situation.

Soln :- Step 1 (Find)

1) no. of E.sh ⇒ 33

2) N.V. of sh. = ₹ 10.

3) Let no. of Eq. sh. b.b ⇒ x.

4) funds req. for b.b. ⇒ 30x.

5) B.B = ₹ 25 + 20% = 30.

6) no. value of E.sh b.b. = 10x

Step 2 Conditions

Condition 1 no. of E.sh. bb ≤ 25% of E.sh.

$x \leq 25\% \times 33$ cr.

$x \leq 8.25$ cr.

Condition 2 funds for b.b. ≤ 25% of Equity.

$30x \leq 25\% \, (330 + 240 + 90 + 90)$

$30x \leq 25\% \, (750)$

$x \leq 6.25$ cr.

Condition 3 :- Post b.b. Debt equity = 2:1

or $\frac{Debt}{Equity} = \frac{2}{1}$

or Debt = 2 × Equity.

a) 1800

b) 1200

c) 1500

a)

Debt = 2 × P.B.B equity

Debt = 2 × {Equity − f A-NV}.

$1800 = 2x\{750 - 30x - 10x\}$

$1800 = 2x(750 - 40x)$

$1800 = 1500 - 80x.$

$80x = 1500 - 1800$

$8x = -300$

$x = -3.75.$

not possible.

b)

$\Rightarrow 1200 = 2 \times (750 - 40x)$

$1200 = 1500 - 80x$

$x = 3.75$

Possible

∴ maximum no. of E.sh. BB = 3.75 cr.

c)

$1500 = 2 \times (750 - 40x)$

$1500 = 1500 - 80x$

$x = 0$

Not possible.

Step 3. Journal

only in case where Debt = 1200 cr

1) Sh. B.B. Dr 112.5
To bank. 112.5
(3.75 cr × ₹30)

2) ESC Dr. 37.5 (3.75 × 10)
S.P. Dr 75 (B/f)
To sh. B.B. 112.5

3)

G.R. Dr 37.5
To CRR 37.5

Or

S.P. Dr 15
G.R. Dr 22.5
To CRR 37.5

Question 2

Nov-19.
(15)

(a) *X Ltd. furnishes the following summarized Balance Sheet as at 31-03-2018.*

Liabilities	*(in ₹)*	*(in ₹)*
Share Capital		
Equity Share Capital 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 & Surplus		
Capital Reserve	1,00,000	
Security Premium	12,00,000	
Revenue Reserve	5,00,000	3V
Profit and Loss	20,00,000	
Dividend Equalization Fund	5,50,000	43,50,000
Non-Current Liabilities		
12% Debenture		12,50,000
Current Liabilities and Provisions		5,50,000
Total		1,21,50,000
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 ₹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.*

NR

CRR.

(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.

100
− 20
80 → Bonus.

11th

12 to 1 maths

11 to 12 Acc.

12:15 to 1 Bst.

11th

- Math

12th

- Acc
- Bst.