

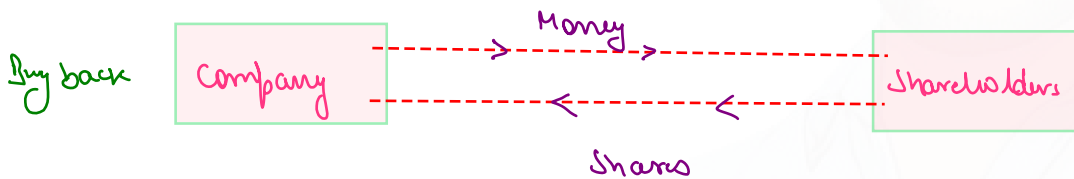
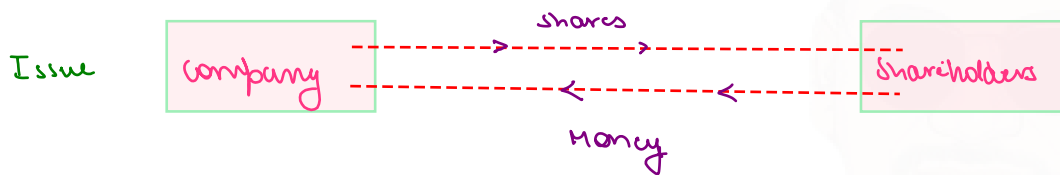


## Buy Back of securities

### Concept 1: Basics

#### Meaning

- Buy Back of shares means purchase of its own shares by a company
- Buy back results into decrease in share capital.



- Not allowed for investment.
- Shares to be cancelled.

#### Objectives:

: To increase EPS

$$\frac{EAE}{n} \leftarrow 100000 \quad 80000 = \uparrow$$

: To increase promoter's holding

$$100 \begin{cases} 20 \text{ (20\%)} \\ 80 \text{ (80\%)} \end{cases}$$

$$90 \begin{cases} 20 \text{ (22.22\%)} \\ 70 \text{ (77.78\%)} \end{cases}$$

: To support MP of share



$$n \rightarrow 1\% \quad 80000 \checkmark$$

= MP<sub>s</sub> ↑

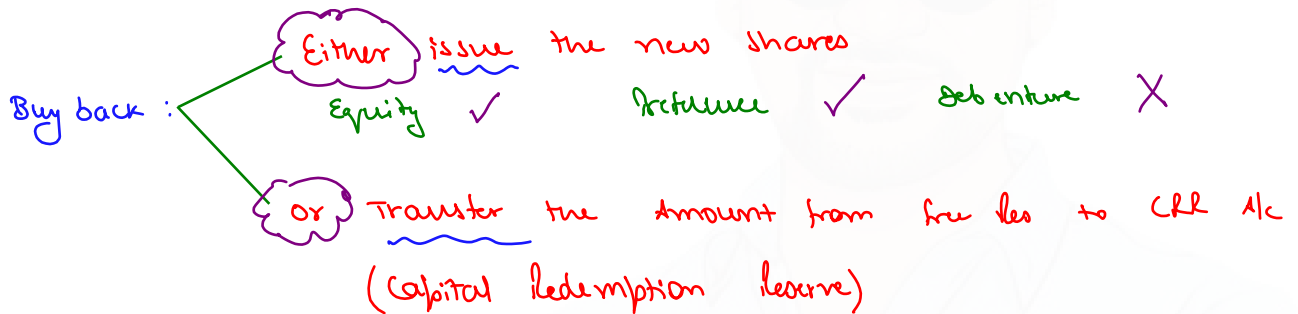
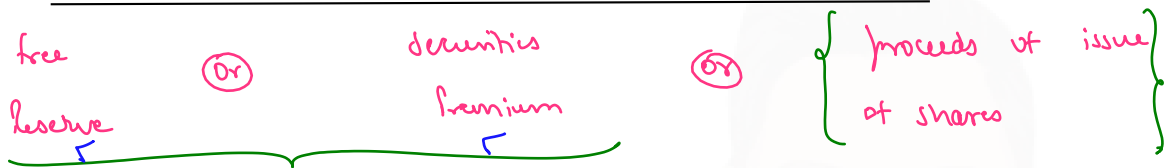
: To pay surplus cash to shareholders



## Concept 2: Conditions for Buy-back

Detailed provisions contained in companies Act, we are dealing with imp. conditions relevant for d/c.

1. company can buy back shares & securities out of



$$\left\{ \begin{array}{l} \text{FV of Eq. shares bought back} \\ - \text{FV of shares issued} \end{array} \right\}$$

\* CLR can be used only to issue fully paid up bonus shares

2. Buy back must be authorised by AOA.

3. SR must be passed in general meeting.

However, if  $BB \leq 10\% \text{ POC} + \text{FR}$ ; then only BR.

4. shares for buy back must be fully paid up.

5. Buyback should be completed within 12 months from the date of passing BR or SR

6. Minimum gap of 1 year from the date of closure of previous BR



7. Premium paid on Buy Back should be adjusted against

- Securities Premium or ①

- Free Reserves ②

8. Shares o/s Test

9. Resources Test

10. Debt - Equity Ratio Test

TBDL



### Concept 3: Journal Entries

1. To make partly paid up shares, fully paid up

(a) Making the final call due

Eq. Share final call A/c

TO Eq. Share Capital A/c

(b) Receiving the call money

Bank A/c

TO Eq. Share final call A/c

2. Making the amt. due on Buy back

Equity Share Capital A/c (Face value)

⇒ Premium on Buy back A/c (BB Price - FV)

⇒ TO Equity Share Buy Back A/c (BB Price)

3. Sale of Investments

Bank A/c

?/L A/c (Loss)

TO Investment A/c

TO P/L A/c (Profit)

4. Raising Bank loan

Bank A/c

TO Bank loan A/c

5. Issue of fresh shares

Bank A/c

TO Eq. Sh. Cap / Pref. Sh. Cap.

TO Securities Premium A/c



6. Transfer to CRR

Free Reserves A/c

TO CRR A/c

7. Closing Premium on Buy Back A/c

Securities Premium A/c →

Free Reserves A/c →

TO Premium on Buy Back A/c

8. Making the payment  
w.r.t. Buy Back

Equity Share Buy Back A/c

TO Bank A/c

9. Issue of bonus shares  
: Use of CRR

(a) CRR A/c

TO Bonus to Shareholders A/c

(b) Bonus to Shareholders A/c

TO Equity Share Capital A/c

10. Cancellation of own Deb.

—% Deb A/c (Face value)

TO Inv. in own Deb A/c (Carrying amt)

TO Profit on cancellation A/c

From bid on redemption of pref. sh.

d. 133 of Co. Act

✓

only GR & P/L

(ICAI assumes)

d. 123 of Co. Act

X

Dec. from, GR & P/L



ANSWER-1

Books of Umesh Ltd

Journal Entries

Sl. No	Particulars	L.F.	Debit	Credit
1.	Equity share capital A/c (4L x 10)		40L	
	Premium on Buy back A/c (4L x 12)		48L	
	TO Equity share Buy back A/c (4L x 22)			88L
2.	Bank A/c (1L x 10)		10L	
	TO 11% Preference share capital A/c (1L x 10)			10L
3.	General Reserve A/c		30L	
	TO Capital Redemption Reserve A/c			30L
	Face value of Eq. sh. bought back: 40L			
	- Face value of Pr. sh. issued : 10L			
				<u>30L</u>
4.	Securities Premium A/c		16L	
	General Reserve A/c		22L	
	TO Premium on Buy Back A/c			48L
5.	Equity share Buy Back A/c		88L	
	TO Bank A/c			88L



## ANSWER- 2

$$\text{No. of shares bought back} = 300000 \times 20\% = 60,000$$

Books of M/s Cube Limited

### Journal Entries

Jno. Particulars	L.F.	Debit	Credit
1. Equity share capital A/c (60000 x 10)		600000	
Premium on Buy Back A/c (60000 x 5)		300000	
To Eq. Share Buy Back A/c (60000 x 15)			900000
2. Bank A/c		25,00,000	
P/L A/c (loss on sale)		5,00,000	
To Investments			30,00,000
3. Revenue Reserve A/c		600000	
To Capital Redemption Reserve A/c			600000
4. Securities Premium A/c		300000	
To Premium on Buy Back A/c			300000
5. Equity shares Buy Back A/c		900000	
To Bank A/c			900000



ANSWER - 3

Books of Anu Ltd

Journal Entries

(₹ in cr.)

S.No.	Particulars	Cr.	Debit	Credit
1.	12% PSC A/c TO Pref. Sh. holders A/c	75		75
2.	Eq. Sh. Cap A/c (50L x 10) From. on Buy Back A/c (50L x 40) TO Eq. Sh. Buy Back A/c (50L x 50)	5	20	25
3.	Reserve Reserves A/c TO Cap. Red. Res. A/c	80		80
	FV of PSC being redeemed: 75			
	FV of ESC being bought back: 5			
4.	Securities Premium A/c TO Prem. on Buy Back A/c	20		20
5.	Pref Sh. holders A/c TO Bank A/c	75		75
6.	Eq. Sh. Buy Back A/c TO Bank A/c	25		25



Balance sheet of Anu Ltd  
as at 1st Apr. 2012  
(After the buy back)

S.No.	Particulars	Note	Amt (₹ in cr.)
A.	Equity & Liabilities		
1.	Shareholder funds		
a.	Share capital	1	20
b.	Reserves & Surplus	2	280
2.	Non current liabilities	-	-
3.	Current liabilities		
a.	Trade payables	-	40
			<u>340</u>
B.	Assets		
1.	Non current Assets		
a.	PPE & Intangible Assets		
i.	PPE	3	-
b.	Non current Investments	4	100
2.	Current Assets	5	240
			<u>340</u>



### Note 1: Share Capital

Particulars

Amt. (in cr)

Authorised Capital

100

Issued and Paid Up Capital

2 crore Eq. Sh. of ₹ 10 each fully paid

20

(12% of 75L Pref. Sh. of ₹ 100 redeemed)

(50L Eq. Sh. of ₹ 10 each bought back)

### Note 2: Reserves & Surplus

Particulars

Amt. (in cr)

a. Capital Reserve

15

b. Securities Premium

Available balance

25

- Used for w/pff from. on Buy Back

20

5

c. Revenue Reserves

Available Balance

260

- Used for creating CRR

80

180

d. Capital Redemption Reserve

0

280

### Note 3: PPE

Particulars

Amt (in cr)

PPE : Cost

100

- Prov. for Dep.

(100)

Nil



Note 4: Non Current Investments

Particulars

Amt (₹ in cr)

Non current Inv at cost

100

(Market value is 400 cr ₹)

Note 5: Current Assets

Particulars

Amt. (₹ in cr)

Total Balance

340

- Payment for

: Redemption of Pref. Sh.

(15)

: Buy back of Eq. Sh.

(25)

240