BuyBack of Securities

1) Meaning of BuyBack :-

BuyBack means repayment to Equity Share holders & repurchasing equity shares by Company

BuyBack is not Compulsory

2) Redemption of Preference shares :-

Redemption means repayment to Preference Shareholders & taking Back the preference shares from shareholders.

Redemption is generally Compulsory/mandatory.

3) Issue of shares Vs. BuyBack & Redemption

Issue of shares	BuyBack & Redemption
⇓	↓
Share Capital Will Increase	Share Capital Will decrease
↓	↓
Credit (Fv)	Debit (Fv)

4) Free Reserves :- Free Reserves means profits of Company which are freely available for distribution to shareholders. (No Restriction on such profits)

a) Balance of General Reserve (Revenue Reserve)

b) Credit Balance of P&L a/c

For the purpose of this Chapter (Buy Back), Security premium Balance is also considered as Free Reserve.

5) Journal Entry for BuyBack :-

1) On the date of Passing of resolution

Fv = 10/- Equity share Capital a/c Dr. (Fv)
BB = 60/- Premium on BB a/c Dr. (Prem.)
To Equity share BB a/c (BB price)

2) On the date of Payment :-
Equity share BB a/c Dr.
To Bank a/c

6) Source of Buy Back :-

There are two sources of BuyBack :-

1) Out of Free Reserves (Cash & other Asset)
2) out of fresh issue proceeds

Ist yr. Ram Started Business with Capital of 500000

B/S

Capital	500000	Cash	500000

Purchased Inventory of 300000 in Cash

B/S

Capital	500000	Cash	200000
		Inventory	300000

60% Inventory SOLD at 40% margin
180000
Credit Sale
252000

B/S

Capital 500000	Cash 200000
R&S 72000	Inventory 120000
	Debtors 252000

Collection from Debtors 200000

B/S

Capital 500000	Cash 400000
R&S 72000	Inven 120000
	Debtors 52000

Purchased Investment of 350000

B/S

Cap.	500000	Cash	50000
Res	72000	Inv.	120000
		Deb	52000
		Invst	350000

7) Additional Journal entries in respect of BuyBack

We are Using Free Reserves

a) When any Investment will be sold for the purpose of Buy Back :-

Bank/cash a/c Dr. (Sale Proceeds)
To Investment a/c (Carrying Amt.)

(Difference will be Gain/Loss transfer to P&L a/c)

(b) W/off "premium on BB a/c" :-

It is to W/off from Free Reserves in the following order :-

I[st] priority ⇒ Out of SPR

II[nd] priority ⇒ Out of GR

III[rd] priority ⇒ Out of P&L

SPR a/c Dr.
GR a/c Dr.
P&L a/c Dr.
To Premium on BB a/c

(c) If Buy Back is out of "Fresh issue proceeds" then Entity shall issue New Securities such New PSC, New ESC as Under:-

Bank a/c Dr. (Proceeds)
To % PSC (FC Value)
To New ESC (FC Value)
To SPR (B/F)

ye wala bhi use kar sakte hai for w/off premium & BB

Note:- Debentures / Bonds / any other type of Debt Instrument are not allowed for fresh issue. (Do not consider in BB working)

8) Requirement to Create CRR :-

When BB is made out of Free Reserves then Company has to Create "Capital Redemption Reserve" (CRR).

How much CRR to be Created?

CRR shall be Created equal to face Value of BuyBack shares Used out of Free Reserves.

Eg:- Total no. of shares = 100000
BuyBack announced = 10000 no.
Out of which, 6000 no. from free Reserves & rest 4000 no. out of Fresh issue. BB price 45/-
Face Value = 10/-

CRR to be Created = 6000 no.
× 10/-
60000

CRR shall be Created out of Free Reserves in the following order :-

General Reserves a/c Dr. (Ist priority)
P&L a/c Dr. (IInd priority)
Securities prem. a/c Dr. (IIIrd priori)
To CRR a/c

Q.BB.RMP.101: (EXAM Jan'21)

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

i. Sold its investments of Rs. 30,00,000 for Rs. 25,00,000.

ii. Issued 20,000, 12% preference shares of Rs. 100 each at par, the entire amount being payable with application.

iii. 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.

iv. 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

Solution :-

Total no. OF Buy Back Shares = 500000 no.

Buy Back price = 15/-

Total Buy Back Amt = $\boxed{75,00,000}$

Face Value
500000 × 10/-
50,00,000/-

Premium on BB
500000 × 5/-
25,00,000/-

Ist

Out OF Fresh issue proceeds
20,00,000/-
12% Pref. shares

Balance out OF Free Reserves (i.e GR)
30,00,000

CRR = 30,00,000

W/off from
a) SPR = 15 lacs.
b) GR = 10 lacs.

Journal Entries in the books of Umang Ltd.

1) Equity Share Capital a/c Dr. 50,00,000
premium on BB a/c Dr. 25,00,000
To Equity Shares BB a/c 75,00,000

(Being Resolution passed to BB 500000 no. @ 15/- each)

2) Securities Premium a/c Dr. 15,00,000
General Reserves a/c Dr. 10,00,000
To premium on BB a/c 2500000
(Being premium on BB W/off)

3) Bank a/c Dr. 25,00,000
Loss on sale a/c Dr. 5,00,000
To Investments 30,00,000
(Being Investments sold for the purpose of Buy Back)

4) Profit & Loss a/c Dr. 500000
To Loss on sale a/c 500000
(Being loss on transfer to P&L)

5) Bank a/c Dr. 20,00,000
To 12% Pref. share Capital a/c 20,00,000
(Being 12% Pref. shares issued For the purpose of BB)

6) General Reserves a/c Dr. 30,00,000
To CRR a/c 30,00,000
(Being CRR Created equal to Face value)

7) Equity shares BB a/c Dr. 7500000
To Bank a/c 7500000
(Being Amt. paid)

CRR Creation → why ?

B/s

ESC	60,00,000	PPE	50,00,000
$\boxed{\text{GR} \quad 40,00,000}$		Land	80,00,000
Liabilities	1,00,00,000	CA	70,00,000
	2 Cr.		2 Cr.

Debn
B. Loans
Creditors

$\boxed{\text{Current Security For Liability Holders} \Rightarrow 1.60 \text{ Cr.}}$

Company announced BB 10% at FC value
i.e 600000/-

ESC a/c Dr. 6
To Bank 6

No fresh issue

B/s

ESC	~~54,00,000~~ 60	PPE	50,00,000
Freezed CRR	0 ~~600000~~	Land	80,00,000
R&S	3400000	CA	6400000
Liab.	10000000		
	2 Cr.		

Security for Liab. Holders = 1.94 − 0.34 = 1.60

R&S Dr.
To CRR

Bonus
CRR Dr. 6
To S.Cap. 6

B/S

ESC	54	PPE	50
R&S	34	Land	80
CRR	6	CA	64
Liab	100		

9) Why we Create CRR (Purpose of Creating CRR)

- In Case of Free Reserves Utilization for BB, the Total Assets Value is reduced which leads to decrease in Security of Outside Liability Holders.

- This may result in demand of repayment by Debt holders (mirchi)

- To Assure them that their money is Safe & Secured with Company. Company has to promise them that it will FreeZ Some of the Portion of Free Reserves in the name of CRR.

- The portion which is freezed Can not be Utilized for distribution to SH except Bonus issue.

B/S (before BB)

ESC 30 lacs.	NCA 60 lacs.
GR 10 lacs.	CA 40 lacs. − 4
Liability 60 lacs	
1 cr.	1 Cr.

Current Security of Liability Holder = 90 lacs.

Company proposed BB of 10% equity at 4 lacs. BB Amt.

No fresh issue

B/S

ESC 27	NCA 60 lacs.
GR 6	CA 36 lacs.
CRR 3	
Liab. 60	
96	96

Security ⇒

$$\begin{array}{r} 96 \\ -\ 6 \\ \hline 90 \\ \hline \end{array}$$

75 BB

(−) 25 Invst

(−) 20 fresh iss.

30 Cash already available

Free Res

SS

CRR 30

25 prem

Q102 (Pg.no.4.3)

Working Note

Total no. of O/s Shares = 2,50,000

BB no. @ 20% = 50,000

BB price = 50/- per share

BB Amount = 50,000×50 = 2500000

Face Value 500000

Premium 20,00,000 → W/off with SPR

out of Fresh issue 200000/- (10% Pref. shares)

Bal. out of FR 300000/- → Create CRR out of GR = 300000

Books of Jayesh Ltd.

1) ESC a/c Dr. 500000

Prem. on BB Dr. 20,00,000

To Eq. Share BB a/c 25,00,000

2) Security Premium a/c Dr. 20,00,000
To premium on BB a/c 20,00,000

3) Revenue Reserve a/c Dr. 300000
To CRR a/c 300000

4) Equity share BB a/c Dr. 2500000
To Bank 25,00,000

Summary Notes :-

10) Redemption of Preference Shares :-

a) Redemption Can be upto 100% also.

b) Source of Redemption :-
(i) out of Free Reserves (Cash/other Assets)
& (ii) out of Fresh issue

c) CRR shall be Created equal to Face value if Redemption is made of Free Reserves.

d) Journal Entries :-

(i) Pref. Sh. Cap. a/c Dr. (FV)
Prem. on Redemp a/c Dr. (premium)
To PSH a/c

(ii) SPR a/c Dr.
GR a/c Dr.
P&L a/c Dr.
To Prem. on Redemption

(iii) Bank a/c Dr.
To Investment
(Difference in P&L)

(iv) Bank a/c Dr.
To Other Securities (FV)
To S.P.R (Prem)

(v) GR a/c Dr.
P&L a/c Dr.
SPR a/c Dr.
To CRR

Face Value

(vi) PSH a/c Dr.
To Bank

(Redemption Value)

Q201 Working:-

Total no. of equity shares o/s = 300000 no.

Buy Back no. @ 20% = 60000 no.

BB price = 15/- per share

BB Amt = 900000
(60000 x 15)

- Face Value 600000
  - Out of fresh issue → NIL
  - Out of Free Reserves 600000 → CRR = 600000
- Premium 300000 → W/off out of SPR

M Ltd.
Revised Balance Sheet (after BB)

Particulars	Note	Amt.
Shareholder fund:-		
1) Sh. Capital		
240000 of 10/- each		2400000
20000 Pref. of 100/- each		20,00,000

2) Reserves & Surplus

CR	10,000
Revenue Reserve (40-6)	34,00,000
CRR	6,00,000
SPR (5-3)	2,00,000
P&L (18-5)	13,00,000

3) Long Term Borrowing

10% Debn	400000

4) Trade payable 40000

1,03,50,000

1) NCA :-

a) PPE	2750000
b) N.C.I (50-30)	20,00,000

2) CA :-

a) Inventory	10,00,000
b) T. Receivable	20,00,000
c) Cash & Cash Equiv. (1000000 + 2500000 - 900000)	2600000

1,03,50,000

Q203 (Pg. no. 4.6)

(₹ in lakhs)

(WN-1) Redemption of Pref. shares :-

No. of Pref. Shares redeemed = 2.5 Cr.
Redemption price = 11/- per share

Total Redemption Value = 2750/-

Face Value 2500/-

Premium 250/-

Out of Fresh issue NIL

Out of Free Reserves 2500/-
CRR = 2500
Out of GR

W/off out of SPR

WN.2 Buy Back

No. of Shares o/s = 800 lakhs.
Buy Back no. @ 10% = 80 lakhs.
BB price = 20/-

BB Amt = 1600 lakhs.

Face Value 800

Premium 800

Out of Fresh issue → NiL

Out of Free Reserves → 800

Out of :-
SPR 550
GR 250

i.e
CRR = 800
out of GR

Books of C Ltd.

Journal Entry

1) 10% Pref. Share Capital a/c Dr. 2500
Premium on Redemption a/c Dr. 250
To PSH a/c 2750
(Being 100% pref. shares redeemed at 10% Premium)

2) Equity Share Capital a/c Dr. 800
Premium on BB a/c Dr. 800
To Equity Share BB a/c 1600

3) Security Premium a/c Dr. 800
General Reserve a/c Dr. 250
To premium on Redemp. 250
To Prem. on BB 800

(Being Premium Amt w/off)

4) Bank a/c Dr. 2500
To Investment 2350
To Gain on Sale 150

5) Gain on Sale a/c Dr. 150
To P&L a/c 150

6) General Reserves Dr. 3300
To CRR 3300
(Being CRR equal to face of Redemption ie 2500 & face Value of BB ie 800 maintained)

7) Pref. Shareholders a/c Dr. 2750
Equity Shares BB a/c Dr. 1600
To Bank a/c 4350

Chaman Ltd.
Balance Sheet
(after Redemption & BB)

Particulars		Amt.
Equity & Liabilities		
1) Shareholders Fund		
a) Share Capital	1	
b) Reserves & Surplus	2	
2) Non Current Liab.		
a) Long Term Borrowing	3	
3) Current Liab.		
a) Trade payables		2300
b) Short Term prov.		1000
		22700

ASSETS

1) Non Current Assets

a) PPE 14000

2) Current Asset

Cash & Cash Equivalent 4

Other Current Assets 8250

22,700

Notes

1) Share Capital

a) 10% PSC 2500
(-) Redemption 2500 Nil

b) 800 lakh Equity of 10/- each
(-) 80 lakh Buy Back

720 Lakhs equity of 10/- each 7200

7200

2) Reserves & Surplus

a) CRR			4300
	Opng Bal.	1000	
	(+) Created	3300	
b) SPR			0
	Op. Bal.	800	
	(-) Prem. w/off	800	
c) GR			2450
	Opng Bal.	6000	
	(-) premium w/off	(250)	
	(-) CRR Created	(3300)	
d) P&L a/c			450
	Opng	300	
	(+) Gain on Sale	150	
			7200

3) Long Term Borrowing :-

9% Debentures 5000

4) Cash & Cash Equivalent 450

Bank Balance	2300
(+) Investment Sold	2500
(–) Redemption	(2750)
(–) Buy Back	(1600)

Summary Notes

1) Bonus issue of Equity shares :-

Bonus Equity issue means entity is issuing the shares to Existing shareholders at free of Cost.

For this purpose, following Reserves can be utilized in below order :-

1st priority ⇒ out of CRR (if available)

2nd priority ⇒ out of SPR

3rd priority ⇒ out of GR

4th priority ⇒ out of P&L

CRR a/c Dr.
SPR a/c Dr.
GR a/c Dr.
P&L a/c Dr.
To Equity share Capital.

Revised Eq. Sh. Capital after BB & Bonus

ESC (as per B/S)	XXXX	
(−) ESC Bought Back	XXX	(Face value)
(+) ESC Bonus issue	XXX	(Face Value)
Revised ESC in B/S	= XXXX	

as No. of shares o/s after Buy Back

Q205

WN-1 BuyBack

Total BB proposed = 15000 no.

BB price = 15/-

BB Amt = 225000

- Face Value 150000
  - Fresh issue → Nil
  - Free Reserves 150000 → CRR = 150000
- Premium 75000 → Out of SPR

WN-2

O/s Eq. after BB = 85000 no.

Bonus issue (1:8) = $\frac{85000}{8}$ = 10625 no.

Bonus Amt = 10625 x 10 = 106250 out of CRR

Revised ESC :-

ESC as per B/S	= 10,00,000
(−) ESC on BB	= (150000)
(+) Bonus ESC	= 106250
	956250

21/4 ESC 150000
Prem 75000
To Eq. Sh. BB 225000

21/4 SP 75000
To prem. 75000

21/4 to 25/4 Bank 250000
To Invst 200000
To Gain (P&L) 50000

25/4 GR 150000
To CRR 150000

25/4 Eq. Sh. BB 225000
To Bank 225000

1/5 CRR 106250
To Esc 106250

B/S

Esc	956250
R&S :-	
SP (300000 - 75000)	225000
GR (250000 - 150000)	100000
CRR (150000 - 106250)	43750
P&L (150000 + 50000)	200000
10% Debn	2000000
Loan	800000
T. payable	120000
	44,45,000
PPE	3650000
TR	550000
Inventories	180000
Cash (40000 + 250000 - 225000)	65000

44,45,000

Summary

12) Maximum Permissible BuyBack

Vr. Imp.

To Find out the Maximum no of BuyBack according to Law, We have to Conduct Following three Tests :-

Test 1 :- Shares Outstanding Test

Maximum BuyBack shall not exceed 25% of Total Outstanding no. of equity shares.

e.g. Suppose O/s no. = 2,00,000 (10/-)

∴ Maximum BB @ 25% = 50,000 no.

Test 2 :- Resources Test

Maximum BuyBack shall not not exceed 25% of (Total paidup share Capital & Free Reserves)

(ESC + PSC)

$$\text{Max. no.} \Rightarrow \frac{25\% \text{ of (Total Paidup + FR)}}{\text{BB price}}$$

eg:- Continued

SP = 600000 & 20,00,000

GR = 750000

P&L = 250000

CR = ~~50000~~

Investment Allowance Reserve = ~~100000~~

BB price = 25/-

Max. Amt of BB => 25% of 3600000/- = 900000/-

Max. No. => $\frac{900000}{25}$ = 36000 no.

Test 3 :- Debt Equity Test

- Debt means all type of Loan whether LT or ST.

- Equity = Total Paidup Share Capital (Both ESC PSC) (+) Free Reserves (GR + P&L + SP)

Debt Equity Ratio after the BB shall not exceed 2:1

$$\frac{D}{E} = \frac{2}{1}$$

FV = 10/-
BB = 25/-

How to Conduct this Test?

Assume Maximum BuyBack no. = x

Minimum Equity after BB = $\frac{D}{2}$

Present equity Before BB	———	XXX	[Total Paidup + FR]
(-) Buy Back effect :-			
Reduction of SC	=	FV × x	$10x$
W/off Premium	=	Prem × x	$15x$
CRR = FV	=	FV × x	$10x$
Minimum Equity after BB	=	D/2	

e.g. 3 Continued From eg 2

Suppose Loans are = 5400000/-

SC = 2000000
SP = 600000
GR = 750000
P&L = 250000

Present equity 3600000

Assume Max. no. of BB = x

Minimum Equity after BB = 27,00,000

BB = 25/-

Present Equity = 3600000

(-) Buy Back effect :-

Reduction of S. Cap. = (10x)

Prem. W/off = (15x)

CRR Create = (10x)

Minimum Equity = 2700000

$x = 25714$ no.

Test Result	Test 1	Test 2	Test 3
Maxi. BB	50000	36000	25714

the lower of above will be Maximum no. of Buy Back i.e 25714 no.

Q301 (Pg. 4.17)

To Find Out Maximum no. of BuyBack, we have conduct following Test :-

Test 1 :- eg. Share Outstanding Test

120 Crore
× 25%
30 Cr.

Max. BB shall not exceed 25% of Total O/s shares i.e 30 Cr.

Test 2 :- Resource Test

Maximum BB Amt shall not exceed 25% of (Total Paidup Capital + FR)

eg. Pref S. Cap.

ESC	=	1200
GR	=	1080
P&L	=	200
SP	=	400
		2880

Max. Amt @ 25% = 720

$$\text{Max. No. OF BB} = \frac{720}{30} = 24 \text{ crore}$$

Loan 1500000
MM. 750000

Test 3:-

Situation I	Situation II
Loan = 3200 → eq SC, PSC	Loan = 6000
Minimum Equity after BB = 1600	Minimum Equity after BB = 3000
Present Equity (before BB) = 2880	Present Equity = 2880
Assuming Max. BB no. = x no.	Buy Back here is not possible since D/E ratio before BB is already more than 2:1
Present equity = 2880	
(-) Buy Back effect :-	
Reduction of SC = (10x)	
w/off Prem = (20x)	Max. no. OF BB = 0
CRR equal to Fr = (10x)	
Minimum Equity = 1600	

x = 32 Cr.

Test Result :-

	Test 1	Test 2	Test 3
Situation I Loan 3200	30 Cr.	24 Cr.	32 Cr.

Max BB no. = 24 Cr.

Situation II Loan 6000	30 Cr.	24 Cr.	0

Max BB no. = 0 Cr.

Q302

BB price = 30/- (25 + 20%)

Calculation of Maximum Permissible BuyBack

To find Maximum permissible BuyBack, we have to Conduct Following Test, & lower of these 3 test will be Maximum permissible BuyBack numbers :-

Test 1 :- Shares outstanding Test :-

Max. BB no. Shall not exceed 25% of Total issued Equity shares :-

Max. no. @25% = 99 × 25% = 24.75 lacs.

Test 2 :- Resources Test :-

Max. Buy Back Amt Shall not exceed 25% of Total paid up share Capital & Free Reserves.

ESE = 990 lakhs
GR = 720 lacs
P&L = 270 lacs.
SP = 270 lacs.

Total = ₹ 2250 lacs

Max. BB Amt @ 25% = ₹ 562.5 lacs.

$$\text{Max. BB no.} = \frac{₹ 562.50 \text{ lacs.}}{₹ 30} = 18.75 \text{ no. lacs.}$$

Note:- Infrastructure development Reserves shall not form part of Free Reserve.

Test 3 :- Debt Equity Test :-

After Buy Back, Debt Equity Ratio shall not exceed 2 : 1

(in lakhs)

Particulars	Situation 1	Situation 2	Situation 3
a) Loan Funds	5400	3600	4500
b) Minimum Equity as per 2:1 (itna Minimum Hona chahie)	2700	1800	$\boxed{2250}$
c) Present Equity (Total Paidup Sh. Cap + FR)	2250	2250	2250
d) Whether BB allowed	NO	Yes	NO

e) Buy Back effect

Assuming BB no. = x

Reduction of Sh. Cap	–	$10x$	–
premium w/off	–	$20x$	–
CRR out of FR	–	$10x$	–
	–	$40x$	–

f) No. of BB (Max.) — | – | 11.25 lakhs | –

$c - e = b$

$2250 - 40x = 1800$

Test Analysis :-

	Situation 1	Situation 2	Situation 3
Test 1	24.75	24.75	24.75
Test 2	18.75	18.75	18.75
Test 3	0	11.25	0
Max. BB no. (Lower of above)	0	11.25	0

Journal Entries (Situation 2 only)

(₹ in Lacs)

2nd Sep to 9th Dec.

		Dr.	Cr.
Equity Share Capital A/c	Dr.	112.5	
Premium on BB a/c	Dr.	225	
To Equity Share BB a/c			337.5

		Dr.	Cr.
Security Premium a/c	Dr.	225	
To premium on BB a/c			225

General Reserve a/c Dr. 112.5
To Capital Redemption Reserve a/c 112.5

Equity share BB a/c Dr. 337.5
To Bank a/c 337.5

Q303

Test 1 = 31250 no.

Test 2 = 39062 no.

Test 3 = 56250 no.

Lower of above will be Maximum no. of BB i.e 31250 no.

Company is proposing 25000 no. Hence Buy Back is allowed & within the provisions of Companies Act 2013.

Test 3:-

Debts = 2875000

$$\text{Minimum equity (after BB)} = \frac{2875000}{2} = 1437500$$

Present equity (before BB) = 3125000
(Total Paidup Cap. + FR)

BB price = 20/- → 10/- , 10/-

x = no. of BB shares

Present equity = 3125000

(−) Share Capital reduce = $10x$ face value

(−) Premium W/off = $10x$ Premium

(−) CRR out of FR = $10x$ face value

Minimum equity = 1437500

$3125000 - 30x = 1437500$

$x = 56250$

Test 3 Debt equity

Loan :- Debn = 1400000

Bank Loan = 2500000

3900000

Total paid up :- ESC = 16,00,000

PSC = 5,00,000

SR = 3,00,000

GR = 7,00,000

P&L = 100000

3200000

BB price = 45/-

$3200000 - 55x = 1950000$

$x = 22727$

EXAMPLE 1 (on Maximum Permissible Buyback):

The Buyback Price is Rs. 25/-

$PSC = 3000000$

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

1) Test 1 = 87500 $\quad T_1 = 87500$

2) Test 2 = 89000 $\quad T_2 = 119000$

$T_3 = 132857$

3) Test 3 = 47142

4) Premium to be w/off = 707130 | 1312500

5) Total Payment to be made = 47142 x 25 = 1178550

Class Ex:-1

ESC = 25,00,000 (FV= 100)

R&S (Free) = 30,00,000

Loans = 75,00,000

Buy Back price = 150

Fresh issue of 9% PSC (FV=100/-) = 10 lacs.

Sol):-

Test 1 ⇒ 25000 × 25% = 6250 no.

Test 2 ⇒ $\frac{25\% \text{ OF } 5500000}{150} = 9166$

Test 3 ⇒ D/E = 2:1 = 15000

Debt = 7500000

minimum equity = 37,50,000

Present equity = 5500000

Max. BB no. = x

Present equity = 5500000

(+/-) Buy Back effect

(-) Eq. Sh. Capital reduction = $(100x)$
100/-

(-) Premium w/off = $(50x)$
50/-

(-) CRR = $(100x - 1000000)$

(+) Fresh issue = + 1000000

Minimum eq = 3750000

$5500000 - \left(100x + 50x + \{100x - 1000000\}\right)$

$+ 1000000 = 3750000$

$5500000 - \left(\underline{150x + 100x} - 1000000\right) + 1000000$

$= 3750000$

$5500000 - 250x + 1000000 + 1000000$

$= 3750000$

$x = 15000$

BB no. = x

BB price = 150

BB Amt = $150x$

Face Value

$100x$

Prem.

$50x$

Out of fresh issue

1000000

(Bal. fig.)

$\boxed{100x - 1000000}$

CRR

Q206

Working For Buy Back

Total No. of O/s Equity Shares = 25000 nos.

BB no @ 25% = 6250 no.

BuyBack price = 30 + 20%
= 36/-

Total Amt of BuyBack = 22,50,000

Face Value of BB 12,50,000

Premium on BB 10,00,000 → W/off out SP a/c

Face Value of BB 12,50,000:

- Out of Fresh issue 2,50,000
- Balance out of Free Reserves 10,00,000 → CRR = 10,00,000

Out of Revenue Reserves = 3,00,000

P&L = 7,00,000

Note:- Issuing Debentures or Bonds is not allowed for the purpose of BuyBack Hence, 14% Debn issued shall be ignored in BuyBack working.

Journal entry

1) Equity Share Capital a/c Dr. 12,50,000
premium on Buy Back a/c Dr. 10,00,000
To Equity Share A/c a/c 22,50,000

2) Securities Premium a/c Dr. 10,00,000
To premium on BB 10,00,000

3) Bank a/c Dr. 150000
To Investments 100000
To Gain on Sale a/c 50000

4) Gain on Sale A/c Dr. 50000
To profit & Loss a/c 50000

5) Bank a/c Dr. 360000
To 14% Debⁿ 300000
To Security premium 60000

6) Bank a/c Dr. 250000
To 10% pref. Sh. Cap. a/c 250000

7) Revenue Reserve a/c Dr. 300000
Profit & Loss a/c Dr. 700000
To CRR a/c 10,00,000

8) Equity share Buy Back a/c Dr. 2250000
To Bank a/c 2250000

9) CRR a/c Dr. 750000
To Equity share Cap. a/c 750000

$(250000 - 62500) \times \frac{3}{15} = 37500$ no.
$\times 20/-$

Revised eq. shares = 250000 − 62500 + 37500
= 225000

Balance Sheet
(after all Transactions)

Particulars		Amt.
1) Share Capital :-		
225000 equity shares of 20/-		4500000
12500 10% pref. shares of 100/-		12,50,000
2) Reserves & Surplus :-		27,10,000
CR	100000	
SP (12-10+0.6)	260000	
Rev. Res. (5-3)	200000	
P&L (20-7+0.5)	1350000	
CRR (10-7.5)	250000	
DEF	550000	
3) Non Current Liab.		15,50,000
12% Deb	1250000	
14% Deb	300000	

4) Current Liab. & provisions 550000

1,05,60,000

5) Non Current Assets

a) PPE 10075000

6) Current Assets

a) Investments 300000 200000
(-) Sold 100000

b) Inventory 200000

c) Cash & Cash Equivalent 85000
Old Bal. 1575000
(+) Invest sold 150000
(+) Debn issue 360000
(+) Pref. issue 250000
(-) BB amt. (2250000)

1,05,60,000

13) Investment in Own Debentures :-

Sometimes, issuing Entity Can acquire its own issued Debentures from open market at Less than Face Value.

Such acquired own Debentures are treated as Investment (Asset) for the time being.

eg:- A Ltd. issued 10,000 Debn @ 100/-
& after sometime A Ltd. purchased own Debentures 2000 no. @ 96/-

A Ltd.
Balance Sheet

FV Debentures face value Liability 10,00,000 10000 no. 2000 8000	Invst in own Debn (Asset) 192000 Cost 2000×96

Own Debn Investment shall be Cancelled With Debenture Liability as Under :-

(2000 x 100) Debenture Liability a/c Dr. 200000
To Invst. in own Debn 192000
To profit on Cancellation 8000

Profit on Cancellation Dr. 8000
To CR 8000

Optional entry

14) Employees Stock Options plan (ESOP) :-

a) Entity offers to issue shares to its employees in Future.

b) When Entity offers to issue shares to employee, Following Journal entry is passed :-

Employee Expense a/c Dr. 10
To Employee Stock option o/s a/c 10

P&L

B/S (Liability side)

c) When Actual shares are issued to employees, following Journal entry is passed :—

20 Bank a/c Dr. (if amt received from employee)		~~50~~
10 Emp. stock option o/s Dr.		~~40~~ 120
To ESC a/c		10 FV
To SP a/c (B/F)		110

Q207

Important working

1) Redemption of Pref. shares

Redemption Amt = 20 + 10% = 22 lacs.

- Face Value 20 lacs.
  - Out of Fresh issue → Nil
  - Out of Free Reserves 20 → CRR = 20
- Premium Amt. 2 lacs. → W/off out of SP 2

2) BuyBack :-

Total no. of BuyBack = 3 lacs.

BB price = 30/-

BuyBack Amt = ₹ 90 lacs.

- Face Value ₹ 30 lacs.
  - Out of Fresh issue → NIL
  - Out of Free Reserves → 30 lacs.
    CRR = 30 lacs.
- Premium ₹ 60 lacs. → W/off out of SP

3) Investment in Own Debn :-

- Liability: FV = 2.2 lacs.
- Asset (Investment): Cost = 2 lacs.

Profit on Cancellation = 0.2 lacs.

Transfer to CR

4) Employee Stock option :-

Employee Stock option o/s Credit Balance = 100000 × 10 = 10,00,000

Bank Dr. 20
esop o/s 10
To esc 10
To SP 20

Options/shares exercised
50,000 no.
× 10/-
5,00,000 Reversed Debit

Extra Ltd.

1/4/x1

(₹ in Laxhs)

1) 9% Redeemable PSC a/c Dr. 20
premium on redemp. a/c Dr. 2
To pref. shareholders 22

2) Equity Share Capital a/c Dr. 30
premium on Buy Back a/c Dr. 60
To Equity Share BB a/c 90

3) Revenue Reserve a/c Dr. 50/
To CRR a/c /50

4) 10% Debentures a/c Dr. 2.20
To Investment in Own Debn a/c 2
To profit on Cancellation 0.2

5) Profit on Cancellation a/c Dr. 0.2
To CR a/c 0.2

6) Bank a/c Dr. 10
(50000 × 20)
10/- Emp. Stock Option O/s Dr. 5
To ESC a/c 5
(50000 × 10)
To Security Prem. a/c 10
(50000 × 20)

Fv 10/-
mp 30/-

7) Security Premium a/c Dr. 62
To prem. on Redemption 2
To prem. on BB 60

8) PSH a/c Dr. 22
Eq Sh. BB a/c Dr. 90
To Bank a/c 112

Extra Ltd.
Balance sheet
as on 1/4/X1

Particulars			Amt.
Share Capital			
ESC (100 - 30 + 5)			75
R&S	CR	8.2	71.2
	SP (60 + 10 - 62)	8	
	CRR	50	
	Stock option o/s	5	
Debentures (4 - 2.2)			1.8

Trade Payable (70-10)	60
	208
PPE	50
N.C. Invst. (120-2)	118
Cash & Cash Eq. (142+10-112)	40
	208