

Adv. AIC 1 Watch 2 lectures Recorded
+ 75-80 + HW
Law 60-70 1 + Revisions
Target: 31st July 2025 (3Mn.)

DT 70 1 Watch 2 lectures Recorded
+ + HW
GST 70 1 + Revisions
+ Adv. AIC + Law Revisions
Target: 31st Oct 2025 (3 mn.)

NOV & DEC: Rev + Test Series

Chapter -4 Buy Back of Shares

"Self Analysis Page"

1) Sec.68 of Companies Act 2013

Sec.68(1) Resources for Buy Back

- Free Reserves --- Those reserves which are otherwise available for
- Securities Premium distribution as dividend to SH.
(Sec.52)
- Proceeds of fresh Issue of ES/other specified securities

Sec.68(2) Conditions for Buy Back

- It should be authorised by AoA.
- If $BB \leq 10\%$ (Paidup SC + FR + SP) --- BOD Resolution
In any other case --- Special Resolution in GM
- Resource Test : Amt. for BB $\leq 25\%$ (Paidup SC + FR + SP)
$$\frac{\text{Max. Amt. avail. for BB}}{\text{Buy Back Price/ES}} \text{ --- Max. No. of ES that can be BB}$$
- Share Outstanding Test : $BB/\text{year} \leq 25\%$ (Paidup SC + FR + SP)

- Debt - Equity Ratio : After BB, $DER \leq 2$

$$DER = \frac{\text{Total Debts}}{\text{Total Equity}}$$

Ideal Ratio is 2:1

How much debt/liab. you can afford in comparison to equity

Actual BB will be least of above 3 Tests

- All the shares to be BB should be fully paid up.
- Comply with all necessary conditions of SEBI

Unlisted Co. - Cos. Act 2013

Listed Co. - Cos. Act 2013 + SEBI

- Only one BB is permissible every year

2) Section 69(i)

When ES are Bought Back out of Free Reserves then an amount equal to Face value of ES BB should be transferred to a separate account known as "CRR A/c".

FM

Various Sources of Finance

Owned Funds

↓
Equity share Capital

Borrowed Funds

Debt

↳ Bank loan → Interest + Proc. Cost → AS-16

↳ Debentures → Interest

- 1) Introduction to FM
- 2) Sources of Finance
- 3) Cost of Capital
- 4) Leverage

Over-capitalised Company

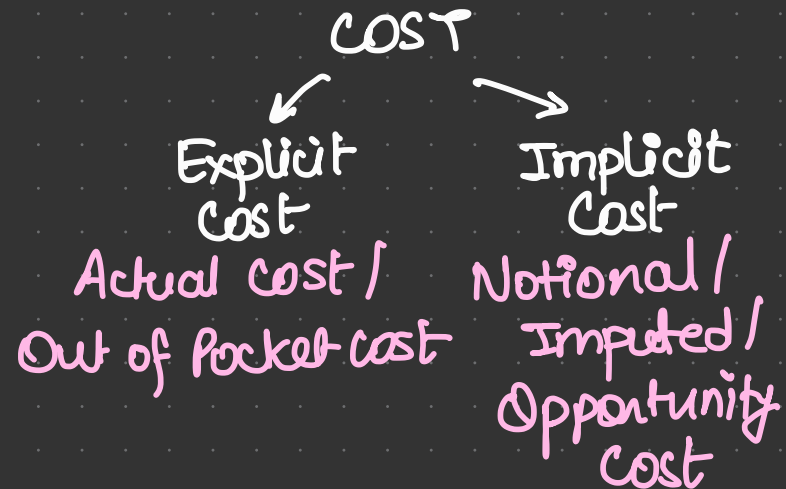
Capital Available > Capital Required

CONSEQUENCES

Under-capitalised Company

Capital Available < Capital Required

↓
Arrange Capital



AS-19



- #1) Cost of Capital will be high
- #2) Money is Idle/ Uninvested
- #3) It will wipe-off your profitab.
- #4) Endanger long term sustainability



POSSIBLE OPTIONS WITH SUCH OVER CAPITALISED COMPANY

- #1) Pay high dividends to SH
- #2) Acquisition / Invest. in Sub. Co.
- #3) Repay Debts/ Loans / ^{Red.} Debentureholders / ^{Red.} Redemption of Pref. Shares
- #4) BUY BACK OF EQUITY SHARES



↳ Operates its aircrafts for 12-18 Hrs per day.

↳ Idle time 6-12 Hrs. Planes are parked and are idle But their lease charges are ON

↳ How can we earn ^{additional} money from using Idle capacity.

Launched Night Flights (12am to 6am) at substantially low fare

Decision : Marginal Costing Appr.

REASONS OF BUY BACK :

- 1) To improve EPS [Earnings Per Share] AS-20
- 2) To Increase Promoter's Holding
- 3) To make correction in Market Price of ES
- 4) To gain confidence of Investors
- 5) For better cash management
- 6) For reducing cost of capital

Ekagata Edusein
Pvt. Ltd.

$$\text{EPS} = \frac{\text{Total Earnings available for ESH}}{\text{No. of Equity Shares}}$$

Q1/AAA/4.5

In the Books of M. Ltd. - Journal Entries

BS	
Rs 100	Invest 20 100
	Bank 20 0

Rs. in '000'

1) Bank A/c _____ Dr. 2500
Profit & Loss A/c _____ Dr. 500
3000
To Investments A/c
(Being Investments sold).

2) ESC A/c (60,000 ES x ₹10) _____ Dr. 600
Prem. pay. on BB (60,000 ES x ₹5) Dr. 300
900
To ES Buy Back / ESH A/c
(Being shares bought back).

3) ES Buy Back / ESH A/c _____ Dr. 900
900
To Bank A/c
(Being amount paid).

4) Securities Premium A/c _____ Dr. 300
300
To Prem. pay. on BB
(Being amount transferred).

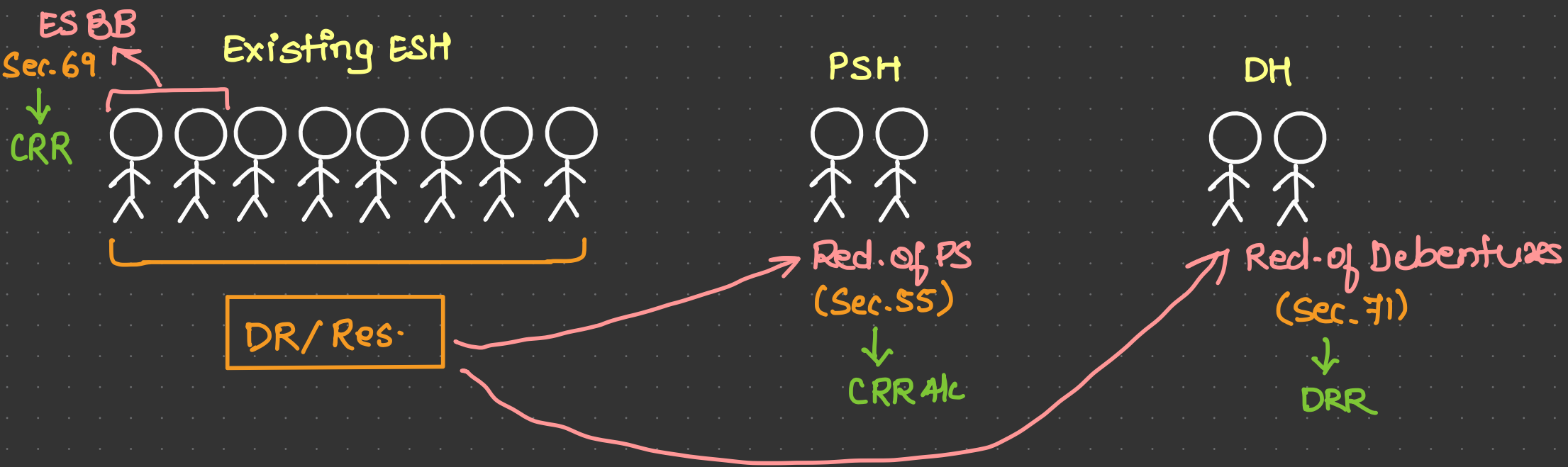
In this Qust. ES are BB out of Reserves. How???

The co. has invested its surplus cash/accumulated profits/reserves in Invest. & now they are simply liquidating their investm. to BB. Therefore BB is done out of Reserves.

5) Revenue Reserve A/c ————— Dr. 600
 To Capital Redemption Reserve (CRR) A/c 600 → up 69(1)
 (Being amount transferred).

When ES are Bought Back out of Free Reserves then an amount equal to Face Value of ES BB should be transferred to a separate account known as "CRR A/c". (Sec. 69(1))

The Balance in CRR A/c can be utilized only for issue of fully paid up Bonus shares to existing ESH.



Q2/AAA/4.6

In the Books of Anu Ltd. - Journal Entries

- 1) 12% PSC A/c — Dr. 75 Cr.
 To PSH A/c 75 Cr.
(Being PS redeemed).
- 2) PSH A/c ——— Dr. 75 Cr.
 To Bank A/c 75 Cr.
(Being amount paid)
- 3) Revenue Res. A/c — Dr. 75 Cr.
 To CRR A/c 75 Cr.
(Being amount transferred).
- 4) ESC A/c (0.50 Cr. ES x 10) — Dr. 5 Cr.
 SP A/c (0.50 Cr. ES x 40) — Dr. 20 Cr.
 To ESH A/c 25 Cr.
(Being ES Bought Back)
- 5) ESH A/c ——— Dr. 25 Cr.
 To Bank A/c 25 Cr.
(Being amount paid).
- 6) Rev. Res. A/c ——— Dr. 5 Cr.
 To CRR A/c 5 Cr.
(Being amt. transferred).

Balance sheet of Anu Ltd.

₹ in Crores

Particulars

Note Ref.

Amount

I. Equity & Liabilities

1) Shareholder's funds

(A) Share Capital

1

20

(B) Reserves & Surplus

2

280

2) Current Liabilities

Trade Payables

40

340

II. Assets

1) Non-current Assets

Property Plant & Equipments

-

Non-current Investments

-

100

2) Current Assets

Trade Receivables

140

Cash & cash equivalents

100

340

Note-1 : Share Capital

₹ in Crores.

Authorised, Issued & Subscribed SC
Equity Share of ₹10 each fully paid up

20

Note-2 : Reserves & Surplus

CRR

80

CR

15

Securities Premium

5

Revenue Reserve

180

280

(Being amt. paid).

01/04/21

Rev. Res. A/c — Dr. 30L
To CRR A/c 30L
(Being amount transferred).

01/04/21

Bank A/c (0.5L ES x ₹20) — Dr. 10L
ESOP O/S A/c (0.5L ES x ₹10) — Dr. 5L → Like Discount A/c
To ESC A/c (0.5L ES x 10) 5L
To SP A/c (0.5L ES x 20) 10L
(Being 50,000 ESOPs exercised).

01/04/21

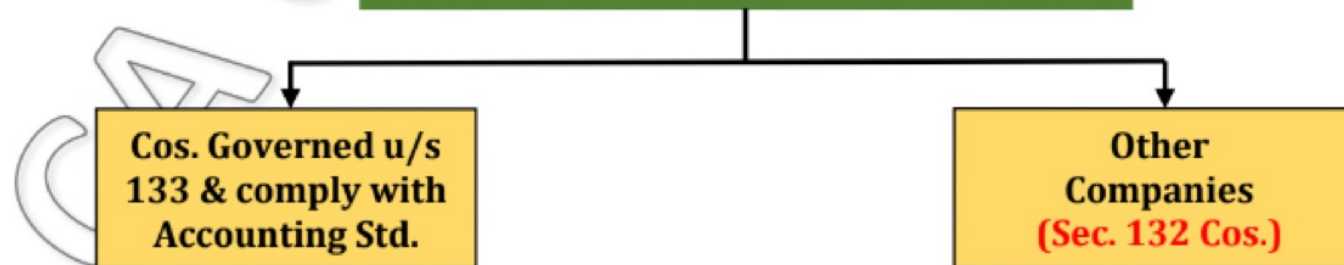
10% Deb. A/c — Dr. 2.20L
To Invest. in Own Deb. A/c 2L
To Capital Reserve A/c 0.20L
(Profit on cancellation)
(Being debentures redeemed).

Deb. Issued 2.2L	Invest. in Own Deb. 2L (FV 2.2L)
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As per Section 55 following are the requirements for redemption of "Redeemable preference shares"-

1. No such shares shall be redeemed unless they are **fully paid**.
2. No such shares shall be redeemed except **out of the profits of the company**, which would otherwise be available for distribution by way of dividend or out of **proceeds of a fresh issue of shares** made for the purpose of redemption.
3. Where any such shares are redeemed out of profits, a sum equal to the nominal amount of the shares so redeemed must be transferred out of profits of the company to a reserve called the **"Capital Redemption Reserve Account"**.
4. The Capital Redemption Reserve can be **utilised for the issue of fully paid bonus shares** to the shareholders. Otherwise, the Account must be maintained intact.
5. If preference shares are redeemed at premium, then the amount of premium payable can be utilised out of:

PREMIUM ON REDEMPTION OF P.S.



Premium payable of redemption of preference shares shall be provided out of profits of the company and such cos. **can't utilise their balance in Securities Premium account.**

Premium payable of redemption of preference shares shall be provided out of profits of the company or out of **Securities Premium account.**

Employee Stock Option Plan (ESOP) or Sweat Equity Shares (Sec. 54)

These are shares issued by a co. to its employees as a compensation for their services (Employee Compensation Cost A/c - Nominal A/c). ESOPs are issued to employees at concessional rate as compared to market price, so that employees get benefit. Employees needs to pay some price to exercise such options known as "Exercise Price".

(To be dealt in AS-15 Employee Benefits).

Q5/AAA/4.7

As per Sec. 68(2) of companies Act 2013, a company can Buy Back its own Equity shares on the basis of least of following tests :-

Test	WN Ref.	Max. No. of ES BB
Share Outstanding test	WN1	31,250 ES
Resource test	WN2	39,062 ES
Debt - Equity Ratio test	WN3	28,750 ES
Max. Permissible ES BB (lowest)		28,750 ES

Conclusion : The co. can Buy Back 25,000 ES since it is within limits of Sec. 68(2) of companies Act 2013.

WN1) Share Outstanding test

$$\begin{aligned}\text{Max. No. of ES that can be BB} &= 25\% \text{ of No. of ES Outstanding} \\ &= 25\% \times 125,000 \text{ ES} \\ &= 31,250 \text{ ES}\end{aligned}$$

WN2) Resource Test

$$\begin{aligned}\text{Max. Amt. available for BB} &= 25\% (\text{Paidup SC} + \text{FR} + \text{SP}) \\ &= 25\% (12,50,000 + 18,75,000) \\ &= ₹781,250\end{aligned}$$

$$\begin{aligned}\text{Max. No. of ES that can be BB} &= \frac{\text{Max. Amt. avail. for BB}}{\text{BB Price / ES}} \\ &= \frac{₹781,250}{₹20/\text{ES}} \\ &= 39,062.50 \text{ ES i.e. } 39,062 \text{ ES}\end{aligned}$$

WN8) Debt-Equity Ratio Test

$$\text{DER} = \frac{\text{Total Debt} \rightarrow \text{All the liabilities (NCL + CL)}}{\text{Total Equity} \rightarrow \text{SC + FR + SP}}$$

This ratio shows that how much is the Debt of a co. as compared to its Equity. Ideal DER ≤ 2 . This means that the cos. liab. can be maximum twice of its equity, not more than that.

Min. Req. Equity is Half (50%) of the Debts.

As per Sec. 68(2) the co. can BB ES in such a way that -
 POST BB DER ≤ 2 .

This means that after BB of ES the company's DER ≤ 2 .

???

How can BB of ES affect DER?

As per Sec. 69(1) whenever a co. BB ES out of Divisible Profits then an amt. equal to FV of ES BB should be transferred to CRR A/c, which is a Capital Reserve. Now this will result into reduction of Div. Profits i.e. Reserves i.e. Total Equity.

$$\text{Before BB - Total Equity} = \text{Paid up SC} + \text{FR (GR+RR)} + \text{SP}$$

↓ Reduces your Free Reserves

$$\text{After BB - Total Equity} = \text{Paid up SC} + (\text{FR} - \text{CRR}) + \text{SP}$$

$$\text{Max. Amt. available for BB} = \left[\begin{array}{l} \text{Present Equity} \\ \text{Paid up SC} \\ + \text{FR} + \text{SP} \end{array} \right] - \left[\begin{array}{l} \text{Amt. to be Trnsfd. to CRR} \\ \text{Depends upon No. of ES BB} \\ \text{ES BB} \times \text{FV/ES} \end{array} \right] - \text{Min. Required Equity}$$

50% of Debts
 50% (NCL+CL)

$$y = ₹31,25,000 - x - (50\% \times ₹45,25,000)$$

$$y = ₹31,25,000 - x - 22,62,500$$

$$y = 862,500 - x$$

$$\therefore 2x = 862,500 - x$$

$$\therefore 3x = 862,500$$

$$\therefore x = ₹287,500$$

Amt. transferred to CRR
No. of ES BB \times FV ₹10

NO. of ES BB \times FV/ES
↓
Max. Amt. Avail.
for BB (y)
—————
BB Price/ES

$$x = \frac{y}{20} \times 10$$

$$\therefore 2x = y$$

$$\therefore \text{No. of ES that can be BB} = \frac{₹287,500}{₹10} = 28,750 \text{ ES}$$

JOURNAL ENTRIES:-

- 1) ESC ac (25,000 \times 10) — Dr. 250,000
 SP ac (25,000 \times 10) — Dr. 250,000
 To ~~ES BB ac~~ 500,000

2) ~~ES BB A/c~~ ————— Dr. 500,000
To Bank A/c 500,000

3) Revenue Res. A/c ————— Dr. 250,000
To CRR A/c 250,000

Q4/AAA/4.7

$$\text{Max. Amt. avail. for BB} = \left[\begin{array}{l} \text{Existing} \\ \text{Equity} \end{array} - \begin{array}{l} \text{Amt. transf.} \\ \text{to CRR} \end{array} \right] - \begin{array}{l} \text{Min. Req.} \\ \text{Equity} \\ 50\% \text{ Debt} \end{array}$$

$SC + FR + SP$

$$y = 72,80,000 - x - 21,00,000$$

$$\therefore y = 51,80,000 - x$$

$$\therefore 3x = 51,80,000 - x$$

$$\therefore 4x = 51,80,000$$

$$\therefore x = ₹ 12,95,000$$

$\div \text{FV/ES ₹ 10/ES}$

$$= 129,500 \text{ ES}$$

$$x = \frac{\text{Max. Amt. avail. for BB}}{\text{BB Price/ES}} \times \text{FV/ES}$$

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

$$\therefore 3x = y$$

Q3/AAA/4.7

Statement showing No. of Shares Permissible for BB

Particulars	Situation-1	Situation-2
Test-1: Reserve Test (WN1)	24 Cr.	24 Cr.
Test-2: Share o/s Test (WN2)	30 Cr.	30 Cr.
Test-3: Debt-Equity Ratio Test (WN3)	32 Cr.	Nil
Max. Permissible BB (Least of Above)	24 Cr.	Nil

WN1: Reserve Test

Particulars	₹ in Cr.	
	Situation-1	Situation-2
Paidup SC	1200	1200
Free Reserves	1680	1680
Total SH Funds	2880	2880
Max. Amt. available @ 25%	₹ 720 Cr.	₹ 720 Cr.
Max. Perm. BB (No. of ES) (@ ₹ 30/ES)	24 Cr. ES	24 Cr. ES

Qn 2: Share O/S test

Particulars	Situation-1	Situation-2
No. of ES Outstanding	120 Cr. ES	120 Cr. ES
Max. Perm. BB. (No. of ES) @ 25%	30 Cr. ES	30 Cr. ES

Qn 3: Debt-Equity Ratio test

Situation-1

$$\text{Max. Amt. avail. for BB} = \left[\text{Existing Equity} - \text{Amt. transf. to CRR} \right] - \text{Min. Req. Equity}$$

$$\therefore y = 2880 - x - 1600$$

$$\therefore y = 1280 - x$$

$$\therefore 3x + x = 1280$$

$$\begin{aligned} \therefore x &= ₹ 320 \text{ Cr.} \\ &\div \text{FVIES ₹ 10} \\ &= 32 \text{ Cr. ES} \end{aligned}$$

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

$$\therefore 3x = y$$

Situation - 2

$$y = 2880 - x - 3000$$

$$y = -120 - x$$

We do not have any surplus equity to do BB

Existing Equity ₹ 2880 Cr. < Min. Req. Equity ₹ 3000 Cr. ∴ No BB is allowed

1) ESC A/c (24 Cr. x ₹ 10) — Dr. 240
SP A/c (24 Cr. x ₹ 20) — Dr. 400
GR A/c ————— Dr. 80
To ES Buy Back 720
(Being shares bought back)

2) ES Buy Back A/c ————— Dr. 720
To Bank A/c 720
(Being amount paid).

3) Gen. Res. A/c ————— Dr. 240
To CRR A/c 240
(Being amount transferred).