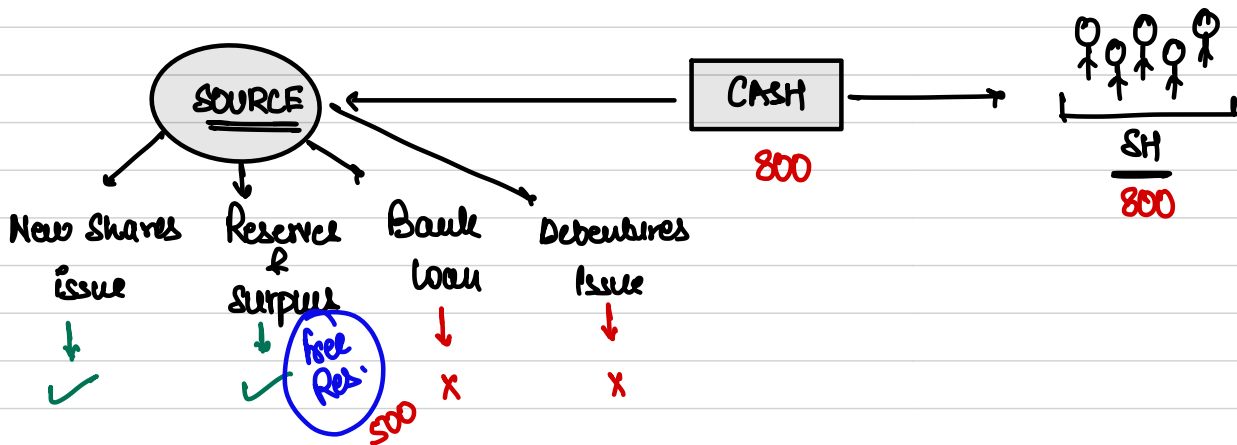
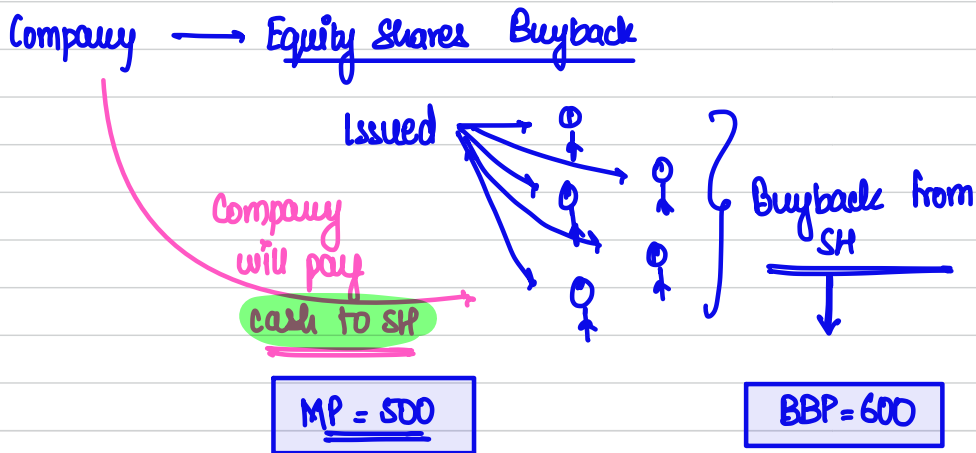


BUYBACK OF SECURITIES



Sources of funds		Application
SC	100	<u>Cash / Bank</u>
RES	100	
BL	50	
Deb.	50	
	<u>300</u>	

METHOD 1:-

Free Reserves → Capital Redemp. Res. = Nominal Value of BB

Includes Securities Premium

METHOD 2:-

Proceeds of Fresh Issue of Shares = Nominal Value of BB

same

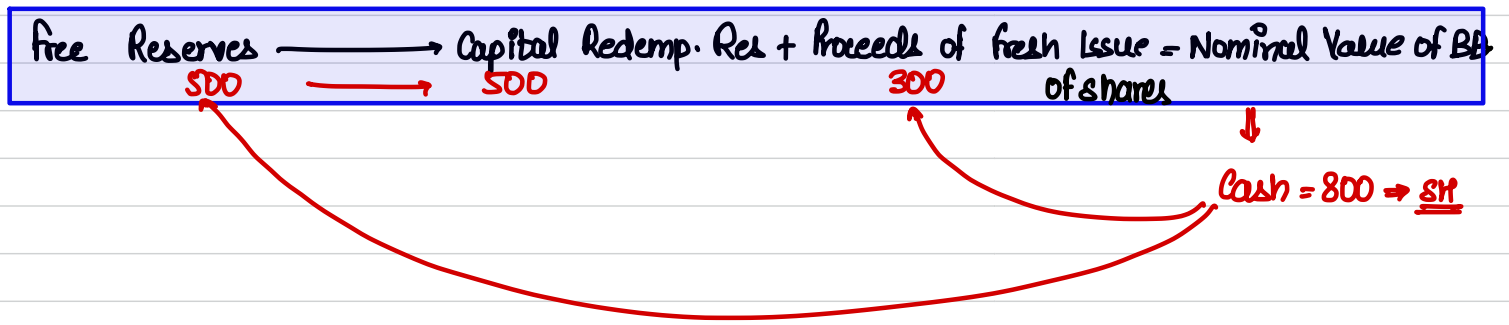
Cash → SH

Proceeds = 500 = 500

Issue: FV = 50 IP = 100 No. 10 shares.

500
↓
Cash → SH

METHOD 3:-



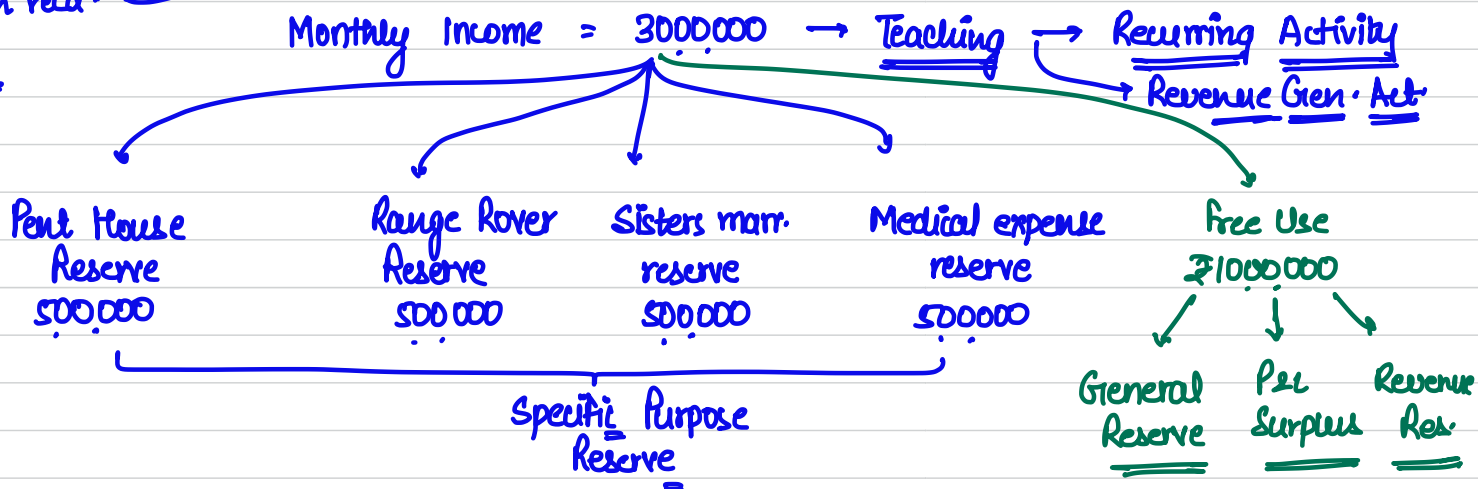
Free Reserve : Examples :- General Reserve
P&L a/c surplus
Revenue Reserve

INCLUDES
Securities Premium

create
Share Issued
 $\downarrow$
Cash recd.
 $\downarrow$
SH

Buyback
SH $\rightarrow$ Cash pay.

Capital Reserve x
Building Development Res x
Machine acquisition res x
Revaluation Res x

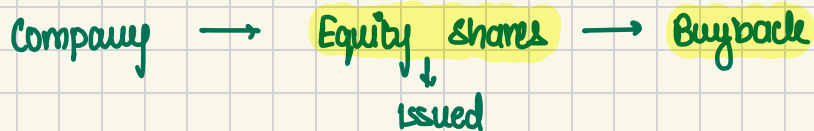


One Time Profit = Capital Reserves $\rightarrow$ Free Reserve x

Proceeds :- Face Value OR Issue Price
which ever is lower

Fresh Issue :	FV	10	10	10	} $\rightarrow$ <u>Sweat Equity Share</u>
<u>of share</u>	IP	10	11	9	
	P	10	10	9	
			$\downarrow$		
			<u>Premium = Ignore</u>		

BUYBACK OF SECURITIES



50000 shares
↓
→ 10000 sh. BB
Bal = 40000

$$NP = 10L$$

Earning (NP) = 106

EPS = ↑

$$\frac{\text{P/E}}{\frac{\text{MP}}{\text{EPS}}} = 2.5$$

Company's Act 2013

7:00am

Section 55

1) Free Reserves $\longrightarrow$ Capital Redemption Reserve = Nominal Value of Buyback

10,000,000 → 10,000,000

↓
Reserves

= 100 000 × 10
= 1 000 000
↓
cash

Piyush $\longrightarrow$ Papa

Mobile = 150000

Savings = 1,50,000

Bike savings

SDO00

Gift savings

30000

CA final savings

20000

Free Savings

5000

Specific savings

$$\frac{\text{free savings}}{50000} \longrightarrow \frac{\text{Mobile Phone Saving}}{50000} = \frac{\text{Cost of Mobile Phone}}{50000}$$

Reserves $\neq$ Cash $\rightarrow$ Cash pay

SC	500,000	Land	1,000,000
Reserves	10,00,000	Investment	9,00,000
Bank loan	4,00,000		
	<u>19,00,000</u>		<u>19,00,000</u>

Sources of funds

Application of funds

SC			
Reserves:	FR - 1,00,000	Land	1,00,000
	CRR 10,00,000	Investment	9,00,000
Deb		Cash	x
Bank loan			1,00,000

FR $\rightarrow$ CRR = NV of BB

Sources of fund for BB

My free reser $\rightarrow$ Applied in some asset

sell any asset

Cash

BB

Free Reserve :- Reserves that are available for distribution as dividend -

Operations $\rightarrow$

NP = Surplus

Ultimate CA = Land

Profit = Surplus

Building Dev. Res. 1 crore

Studio Develop Res. 2 crores

App Imp Reserve 1 crore

Free Profits

1 crore

Free Res.

Specific Reserve

NO
This is non returning

Eg:- General Reserve, Dividend Equal. Res., P&L: Surplus, Revenue Res.

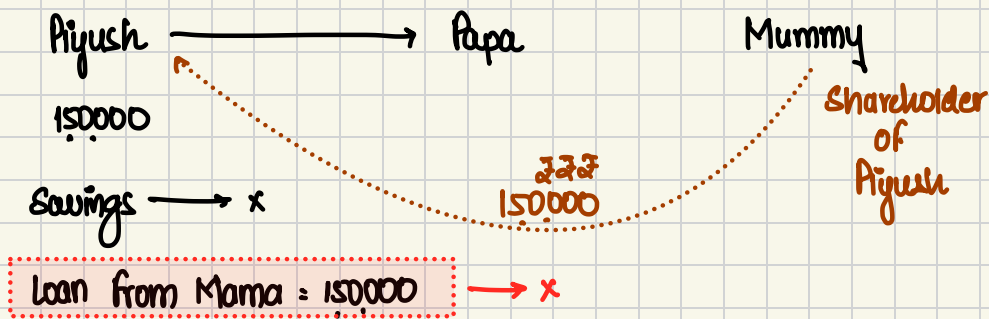
Source of the Cash ← Cash → Buyback

Free Reserves → CRR

Savings : not specifically used for any purpose
i.e. free savings.

→ Invested (applied) in different assets
↓ sell the assets
→ convert to cash.

2) Proceeds of fresh issue of shares = Nominal value of Buyback



Proceeds of fresh issue of shares = Nominal value of Buyback
= 100,000 × 10
= 10,00,000

Proceeds : face value	or	Issue Price	w.e. lower
10		10	= 10
10		12	= 10
10		9	= 9

NOTE :- i) Issue of shares should not be of the same class as the shares that are being bought back.

2) Proceeds of fresh issue doesnot include issue of debentures

Example :- Badboy Shah Ltd. wants to buyback 100,000 Equity shares of ₹ 100 each @ ₹ 110 /share. For this purpose it wants to issue new shares of ₹ 10 each @ ₹ 13 /share. Calculate the number of shares to be issued by Badboy Shah Ltd.

$$\begin{aligned}
 \text{Proceeds of fresh Issue} &= \text{Nominal Value of Buyback} \\
 &= 100000 \times 100 \\
 \text{Total proceeds} &= 10000000 \\
 \text{Proceeds / share} &= 10 \\
 \text{Number of shares} &= 1000000 \text{ shares.}
 \end{aligned}$$

$$\begin{aligned}
 3) \text{ Free Reserves} &\longrightarrow \text{Capital Redemp Res} + \text{Proceeds of fresh Issue} = \text{Nominal Value of Buyback} \\
 200000 &\longrightarrow 200000 \quad \quad \quad \times \\
 &\quad \quad \quad = 800000 \\
 &\quad \quad \quad = 100000 \times 10 \\
 &\quad \quad \quad = 1000000
 \end{aligned}$$

NOTE :- In method 1 and method 3 above, free Reserves will include Securities Premium.

Example :- Crux Ltd. wants to buyback 50,000 Equity shares of ₹ 100 each @ ₹ 110 /share. For this purpose they have given the following details :-

- 1) General Reserve = 500,000
- 2) Surplus in P&L = 10,00,000
- 3) Securities Premium = 5,00,000

Crux Ltd. is also permitted to issue shares of ₹ 10 each @ ₹ 12 for the purpose of buyback. Calculate the number of shares to be issued by Crux Ltd.

Also pass Journal Entries for the above.

Solution :-

$$\text{Free Reserve} \longrightarrow \text{Capital Redemp. Res} + \text{Proceeds of fresh Issue} = \text{Nominal Value of Buyback} = 5000000$$

$$\text{GR} = 500000 \longrightarrow 500000$$

$$\text{P\&L} = 1000000 \longrightarrow 1000000$$

$$\begin{aligned}
 \text{SP} &= 500000 \\
 - \text{P} &= 500000 \\
 \hline
 &0
 \end{aligned}$$

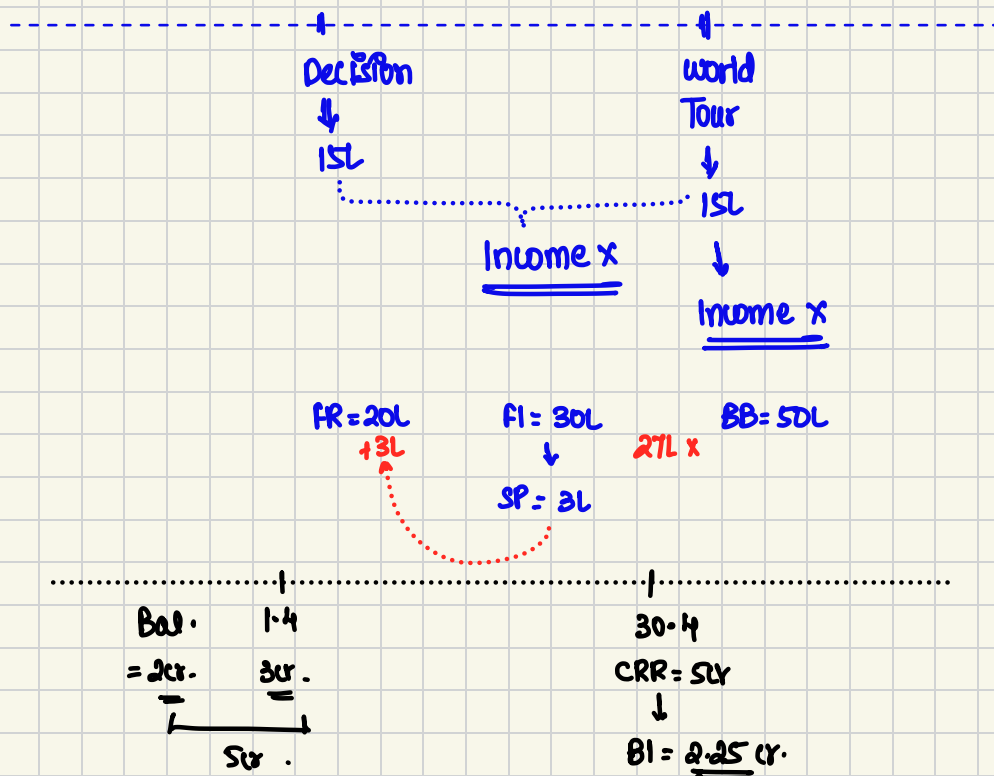
$$\underline{1500000}$$

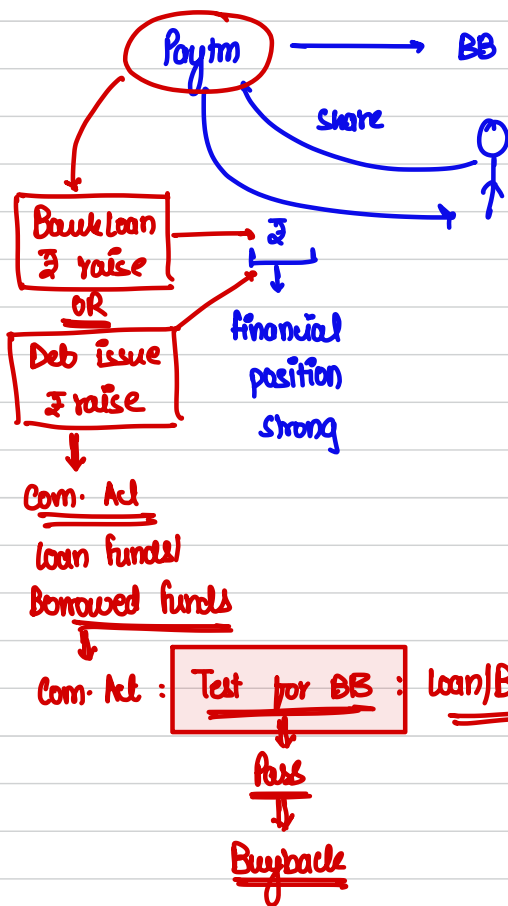
- 1) Total Proceeds = 35,00,000
- 2) Proceeds / sh = 10
- 3) No. of sh = 3,50,000 sh.

$$\begin{aligned}
 \text{P} &= 50000 \times 10 \\
 &= 500000
 \end{aligned}$$

JOURNAL ENTRY

1) General Reserve a/c P&L a/c To Capital Redemption Reserve	Dr. 500,000 Dr. 10,00,000	15,00,000
2) Securities Premium To Premium on buyback	Dr. 500,000	5,00,000
3) Bank a/c (350,000 x 12) To E-Share Capital (350,000 x 10) To Securities Premium (350,000 x 2)	Dr. 42,00,000	35,00,000 7,00,000
4) Equity Share Capital (50,000 x 100) Premium on buyback (50,000 x 10) To Equity Shareholders (50,000 x 110)	Dr. 50,00,000 Dr. 5,00,000	55,00,000
5) Equity Shareholders To Bank	Dr. 55,00,000	55,00,000





$$NP = 10L$$

$$No.ES = 10000$$

$$EPS = \frac{1000000}{10000} = 100$$

$$BB = 1000$$

$$No.ES = 9000$$

$$EPS = \frac{1000000}{9000} = 111.11 \uparrow$$

Company's Act → 2 methods

METHOD 1 :- Out of Existing funds → Khud ki savings

Free Reserves → Capital Redemp. Act. = Nominal value of Buyback

Example :-

Beta

Papa

Samsung
Galaxy
fold 5

x

$$= 150000/-$$

$$\text{free Savings} = 200000 \times 100000$$

$$\text{free Savings} \rightarrow \text{Mobile Phone Savings} = \text{Mobile cost}$$

200000

150000

150000

100000

100000

Source Savings

150000
M.P.

Mobile Shop

100000 → saw
50000 → udhar

→ Bike purch savings = 1L

Savings = 2L

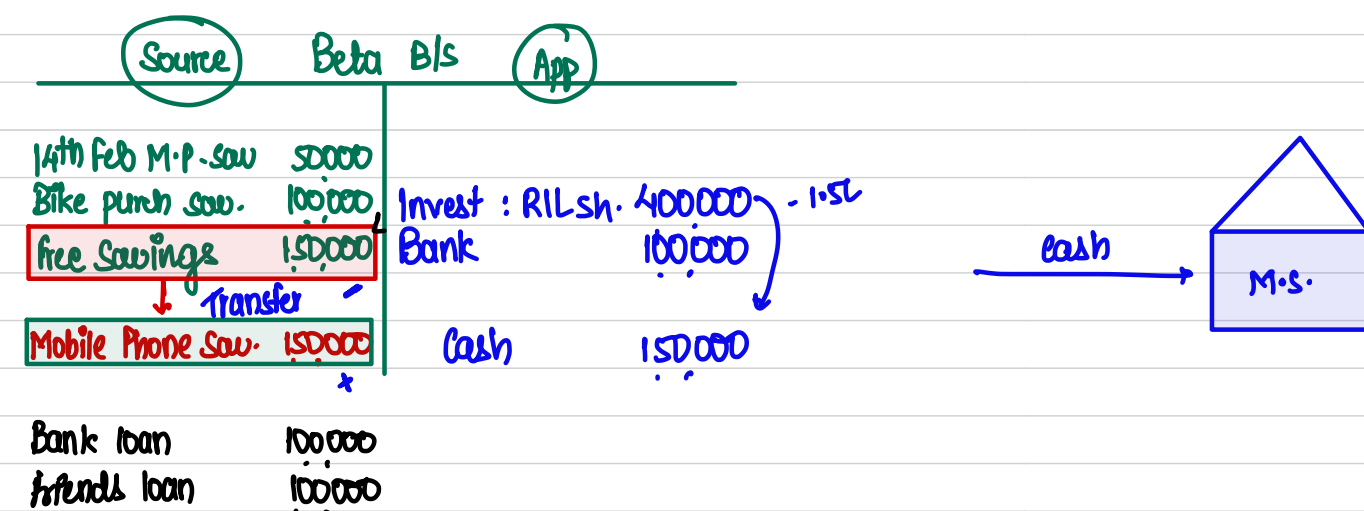
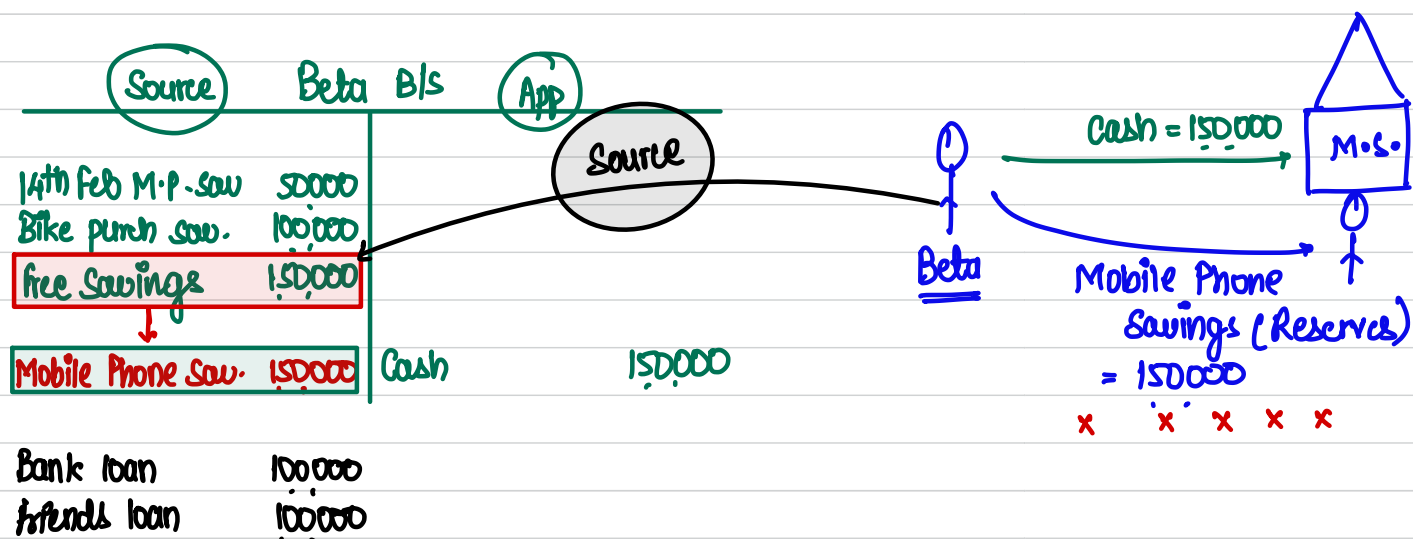
14th Feb
M.P.

Savings
50k

→ NO

Shareholders funds

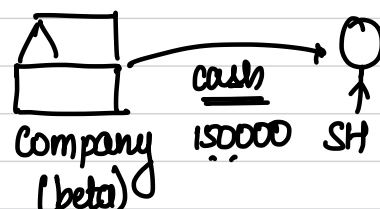
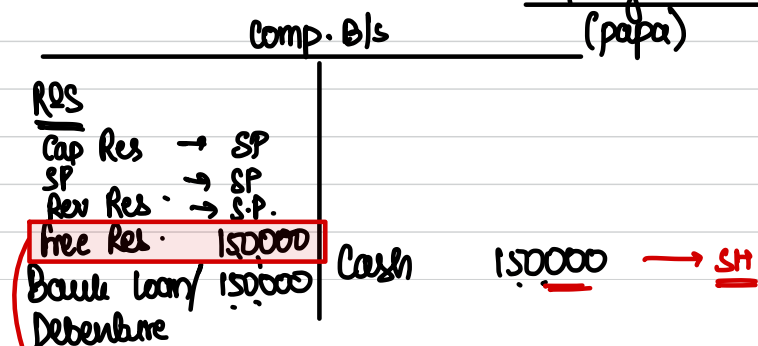
$$\text{Free Savings } 150000 \longrightarrow \text{Mobile Phone Savings } 150000 = \text{Cost of Mobile Phone } 150000$$



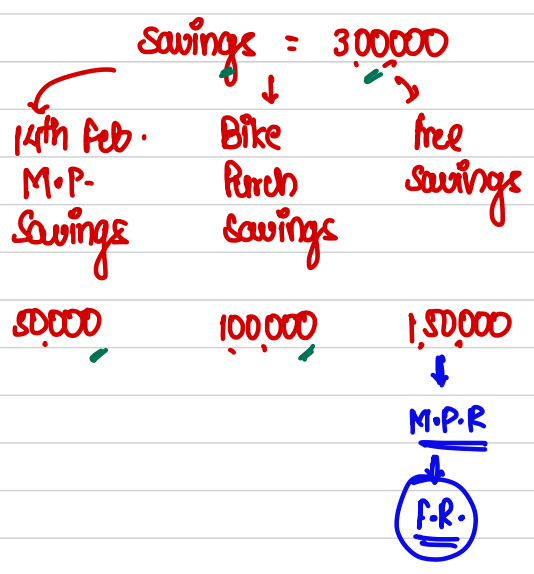
Journal Entry

Free Savings	a/c	Dr.	150000	
To M.P. Savings	a/c		150000	PrL Dr.
Cash	a/c	Dr.	150000	MP Cr.
To Investment / Asset			150000	
Mobile Phone	a/c	Dr.	150000	
To, Cash	a/c		150000	

Company's Act : Shares Buyback



Cap. Red. Res. 150,000



M.P.

PR/MPR	150,000	MP ₁	1.5L
		MP ₂	1.5L
		MP ₃	1.5L

Example :-

Anish Ltd wants to buyback 30000 ES of ₹ 100 each.

The company has the following reserves :-

- ✓ General Reserve :- 1100000
- ✓ P&L : Surplus :- 1200000
- ✓ Revenue Reserve :- 1000000
- ✗ Capital Reserve :- 500000
- ✗ Building Development Res: 1500000
- ✗ Securities Premium :- 500000 → Even securities premium can be used.

Show whether Anish Ltd. can buyback 30000 shares. If yes, pass Journal Entries.

Solution

Free Reserves		Capital Redemption Res = Nominal Value of Buyback
Gen Res = 1100000	→ 1100000	= 30000 × 100
P&L = 1200000	→ 1200000	= 3000000
Rev. Res = 1000000	→ 700000	
+ Sec. Prem = 500000	→ *	
	<u>3000000</u>	

JOURNAL ENTRY

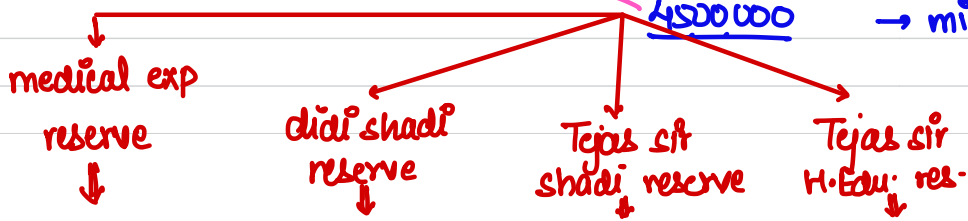
General Reserve	a/c	Dr.	1100000	
P&L	a/c	Dr.	1200000	
Revenue Reserve	a/c	Dr.	700000	
To, Capital Redemption Reserve				3000000
Equity Share Capital	a/c	Dr.	3000000	
To, Equity Shareholders/Share Buyback				3000000
Equity Shareholders/Share buyback		Dr.	3000000	
To, Bank				3000000

FREE RESERVES

Reserves that can be used for distribution as dividend.

Revenue Nature

Papa Income = 3000000 / month
+ 1500000 / month
4500000 → mini cooper



Pushtaini
Land sell:
Profit = 125 crores.
↓
Non-recurring earning

200,000 100,000 100,000 50,000

Specific Res = 2700,000/month

Free Reserve = 1800,000/month

↓
Capital Reserves

↓
Not a free reserve.

for the purpose of buyback of Equity shares free reserves will also include Securities Premium-

Jai Maa Garaswati !!

B/s			
ESC	(150,000)		
FR	(150,000)	Mobile Phone	150,000
↓			
CRR	+ 150,000	Cash / Bank	(150,000)

Securities Premium - Share Issue → Capital Nature

received money from sh.

Buyback

money payable to sh.

Free Reserves + Securities Premium

source

cash

Example 2:-

Anish Ltd wants to buyback 30000 ES of ₹ 100 each @ ₹ 110/share
The company has the following reserves:-

- ✓ General Reserve :- 1100000
- ✓ P&L : Surplus :- 1200000
- ✓ Revenue Reserve :- 1000000
- Capital Reserve :- 500000
- Building Development Res: 1500000
- ✓ Securities Premium :- 500000 → Even securities premium can be used.

Show whether Anish Ltd. can buyback 30000 shares. If yes, pass Journal Entries.

Solution :-

Free Reserves	→	Capital Redemption Reserve = Nominal Value of Buyback
GR = 1100000	→	1100000 = 30000 x 100
P&L = 1200000	→	1200000 = 3000000
RR = 1000000	→	700000
SP = 500000 → Cr.		<u>3000000</u>
-300000 → Dr.		
<u>200000</u>		

Premium = 30000 x 10
= 300000
(1st priority = sec. item)
w/off

JOURNAL ENTRY

General Reserve a/c	Dr.	1100000	
P&L a/c	Dr.	1200000	
Revenue Reserve a/c	Dr.	700000	
To Capital Redemp - Res.			3000000
Equity Share Capital a/c	Dr.	3000000	(30000 x 100)
(loss) Premium on buyback a/c	Dr.	300000	(30000 x 10)
To Equity SH / Equity share Buyback			3300000
Equity SH / Equity share buyback Dr.		3300000	
To Bank			3300000
Securities Premium a/c	Dr.	300000	
To Premium on buyback			300000

Example 3 :-

Anish Ltd wants to buyback 30000 ES of ₹ 100 each @ ₹ 150/share
The company has the following reserves :-

General Reserve :- 1100000
P&L : Surplus :- 1200000
Revenue Reserve :- 1000000
Capital Reserve :- 500000
Building Development Res: 1500000
Securities Premium :- 500000 → Even securities premium can be used.

Show whether Anish Ltd. can buyback 30000 shares. If yes, pass Journal Entries.

Solution :-

Free Reserves	Capital Redemption Res = Nominal Value of Buyback
GR = 1100000	1100000 = 30000 × 100
P&L = 1200000	1200000 = 3000000
RR = 1000000	2300000
- 1000000	
0	
SP = 500000	
- 500000	
0	

Premium
 = 30000 × 50
 = 1500000
 ↓
loss: w/off

The company cannot buyback 30,000 E.S. of ₹ 100 each @ ₹ 150/sh.

Homework :- Calculate the maximum shares that the company can buyback @ BBP of ₹ 150 (FV = 100)

$$= \frac{3800000}{150}$$

$$= 25333 \text{ E.S.}$$

1 share (FV = 100 Prem = 50)
(Savings utilised)
(FR + SP)

FR + SP → CRR = 100

$\frac{SP + FR}{FR + SP} \rightarrow \text{w/off} = \frac{50}{150}$

FR + SP
150
3800000

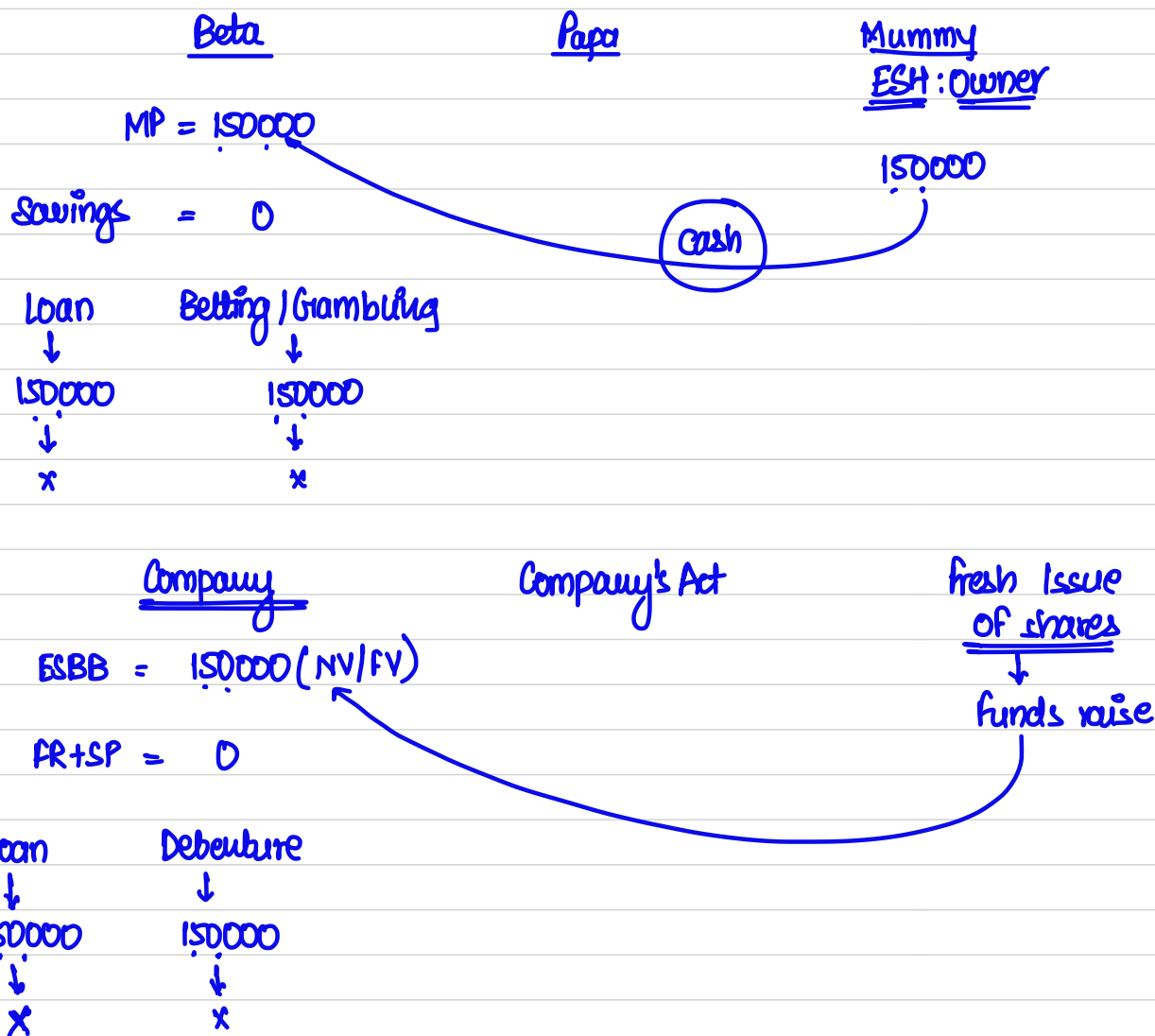
$x = \frac{3800000 \times 1}{150}$

1 ES
x ES

$= 25333 \text{ ES}$

METHOD 2:- Out of proceeds of fresh Issue

Proceeds of fresh Issue = Nominal Value of Buyback



Proceeds of fresh Issue = Nominal Value of Buyback

fresh Issue = Equity share.
Preference share.

FV = 10
VR = 1:1
DR = X

fresh Issue cannot be of the same type of shares to be buyback.

fresh Issue cannot be of debentures.

Proceeds = Face Value OR Issue price w.c. lower

FV =	10	10	10
IP =	11	10	9
P =	10	10	9

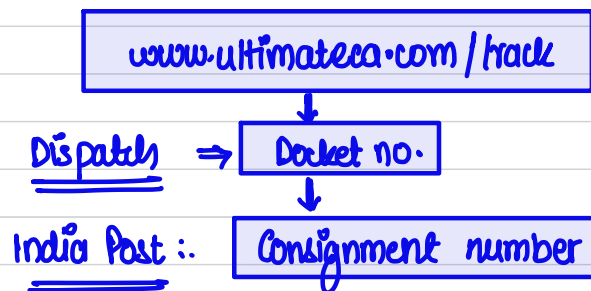
Example :- 5000 E.S. of ₹ 100 each ; IP = 120

$$\begin{aligned}\text{Proceeds} &= 5000 \times 100 \\ &= 500,000\end{aligned}$$

Premium not considered as proceeds.

5000 ES of ₹ 100 each ; IP = 90

$$\begin{aligned}\text{Proceeds} &= 5000 \times 90 \\ &= 450,000\end{aligned}$$



Question 1 :-

Koushal Hd. wants to buyback 40000 ES of ₹ 100 each @ ₹ 120 /share. For the purpose of buyback it issued 8% Preference Shares of ₹ 100 each @ ₹ 150/share. Calculate the number of shares to be issued by Koushal Hd.

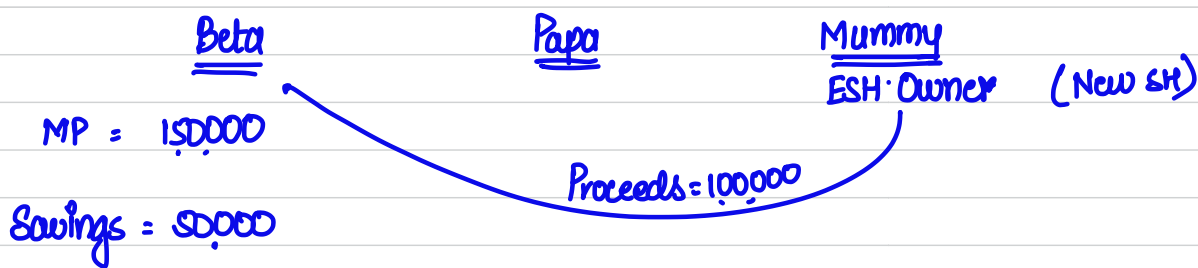
Solution :-

$$\begin{aligned}\text{Proceeds of fresh issue of shares} &= \text{Nominal Value of Buyback} \\ &= 40000 \times 100 \\ \text{Proceeds} &= 4000,000\end{aligned}$$

1. Total Proceeds = ₹ 4000,000
2. Proceeds /share = ₹ 100
3. Number of share = 40000 P.S.

$$\begin{aligned}\text{Proceeds} &= 40000 \times 100 & \text{Cash} &= 40000 \times 150 \\ &= 4000,000 & &= 6000,000\end{aligned}$$

Cash and Proceeds are not the same.



METHOD 3: Combination of Method 1 + Method 2

Free Reserves $\longrightarrow$ Capital Redemption Res + Proceeds of fresh Issue = Nominal Value of Buyback
 50,000 $\longrightarrow$ 50,000 $\times$ = 1,00,000 = 1,50,000

Example :-

Seema Ltd. wants to buyback 50,000 E.S. of ₹ 100 each @ ₹ 110/sh. It has the following reserves :-

- ✓ General Reserve = 10,00,000
- ✓ P&L = 10,00,000
- ✓ Securities Premium = 5,00,000
- Capital Reserve = 10,00,000

Seema Ltd. is authorised by its articles to issue fresh shares of ₹ 100 each @ ₹ 105/sh for the purpose of buyback.

Calculate the number of shares to be issued by Seema Ltd.

Solution :-

Free Reserves	$\longrightarrow$	Capital Redemp. Res + Proceeds of fresh Issue	=	Nominal Value of Buyback
GIR = 10,00,000	$\longrightarrow$	10,00,000	=	50,000 $\times$ 100
P&L = 10,00,000	$\longrightarrow$	10,00,000	=	50,00,000
SP = 5,00,000				
- 5,00,000				
<u>0</u>		<u>20,00,000</u>		

$\times$
 = 30,00,000

$P = 50,000 \times 10$
 = 5,00,000

1. Total Proceeds = 30,00,000
2. Proceeds/sh = 100
3. Number of sh = 30,000 sh.

Question 2:- Calculation of maximum permissible buyback

1) Shares Outstanding Test :- 25% of number of shares outstanding

$$= 25\% \times 125000 \\ = 31250 \text{ E.S.}$$

2) Resources Test :- 25% of (Paidup capital + free Reserves + Securities Premium)

$$= 25\% (1250000 + 1500000 + 250000 + 125000)$$

$$= 25\% \times 3125000$$

Total amount of buyback = 781250

Buyback price /share = 20

Number of shares = 39062 shares

3) Debt Equity Ratio Test :- After buyback ; $\frac{\text{Total Debt}}{\text{Total Equity}} \leq \frac{2}{1}$

1. Total debt after buyback = 4525000 $\frac{2}{1}$

2. Total equity after buyback = 2262500 $\frac{1}{1}$

3. Total equity before buyback = 3125000

4. Equity that can be boughtback = 862500

5. No. of shares that can be BB = 28750 shares

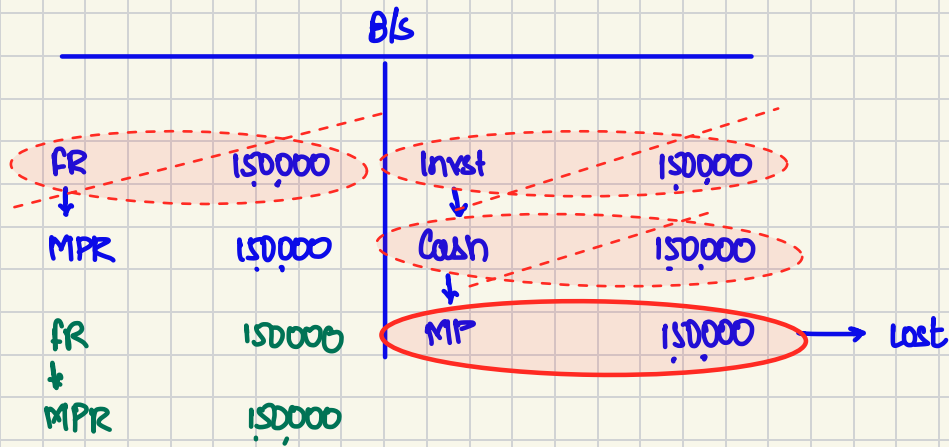
	Equity	SH funds		
	Paidup Capital	free Reserves	Securities Prem	
15H	10↓	10↓	10↓	= 30
2				862500
= 28750 E.S.				

NOTE :- Debt includes Long Term as well as short term debt.

Maximum permissible Buyback = 28750 E.S.

x 90L
22-5L

- * for capitalisation of reserves i.e. Bonus Issue, make sure to first use Capital Redemption Reserve. CRR has only 1 use and i.e. for the purpose of Bonus Issue
- 2nd Reserve = Securities Premium
- 3rd Reserve = Free Reserves



Question 2 :-

Maximum Permissible Buyback

TEST 1 :- Resource Test :- $25\% \text{ [Balance Equity Capital + Free Reserve + Securities Premium]}$
 $= 25\% [1250000 + 1500000 + 250000 + 125000]$

Total amount = ₹ 781250

BBP / share = ₹ 20/sh

Number of sh. = 39062 E.S.

TEST 2 :- Shares outstanding Test :- $25\% \text{ [Number of equity shares outstanding]}$
 $25\% \times 125000$
 31250 E.S.

TEST 3 :- Debt Equity Ratio Test :- After buyback ; $\frac{\text{Total Debt}}{\text{Total Equity}} \leq \frac{2}{1}$

1. Total debt after buyback = 4525000 2
2. Total Equity after buyback = 2262500 1
3. Total Equity before buyback = 3125000
4. Equity that can be bought back = 862500
5. Number of shares that can be BB = 28750 E.S.

ES	BB	Equity	ESC	FR	SP	Equity
			10 ↓	10 ↓	10 ↓	= 30 ↓
x = 28750 E.S.						862500

Maximum Permissible buyback = 28750 E.S.

Free Reserves → Capital Redemption Reserve = Nominal Value of Buyback
 RR 1500000 → 250000 = 25000 × 10
 = 250000 P = 25000 × 10 = 250000

RR Dr. 250000
 To, CRR 250000

ESC Dr. 250000
 Premium on BB 250000
 To, ESH / ESBB 500000

ESH / ESBB Dr. 500000
 To, Bank 500000

SP
To. prem on BB

Dr.

250000

250000

Bk - H.W.

Question 3: -

Buyback of Equity shares (Method 2)

$$\begin{aligned} \text{Proceeds of fresh Issue} &= \text{Nominal Value of Buyback} \\ \downarrow &= 60000 \times 10 \\ \text{PS Issued: } 2000,000 &= 600,000 \end{aligned}$$

entry Already done
reflected in B/s

$$\begin{aligned} P &= 60000 \times 5 \\ &= 300,000 \end{aligned}$$

Redemption of Preference shares (Method 1)

$$\text{Free Reserves} \longrightarrow \text{Capital Redemption Res} = \text{Nominal Value of Redemption}$$

$$\text{Rev. Res} = 4000,000 \longrightarrow 2000,000 = 2000,000$$

$$P = 200,000$$

$$\begin{aligned} \text{P/L} &= 1800,000 \\ - P &= \frac{(200,000)}{1600,000} \longrightarrow \frac{\times}{2000,000} \end{aligned}$$

Issue of Debentures

Liability = FV (100) $\Rightarrow$ Cr.

1 Debenture

Invest in Own deb.

Asset = Cost (98) $\Rightarrow$ Dr.

Trade in Market

Cancel

% Debentures	Dr.	100
To Own deb.		98
To, P/L		2

JOURNAL ENTRY

Equity Share Capital $\{60000 \times 10\}$
Premium on buyback $\{60000 \times 5\}$
To, Equity shareholders

Dr.	100,000	
Dr.	300,000	
		400,000

Equity shareholders
To, Bank

Dr.	400,000	
		400,000

Securities Premium
To, Premium on buyback

Dr.	300,000	
		300,000

Revenue Reserve
To, Capital Redemption Reserve

Dr.	2000,000	
		2000,000

P/L
To, premium on redemption

Dr.	200,000	
		200,000

9/. Preference share Capital
Premium on redemption
To, Preference Shareholders

Dr.	2000,000	
Dr.	200,000	
		2200,000

Preference Shareholders
To, Bank

Dr.	2200,000	
		2200,000

Bank
P&L
To, Investment

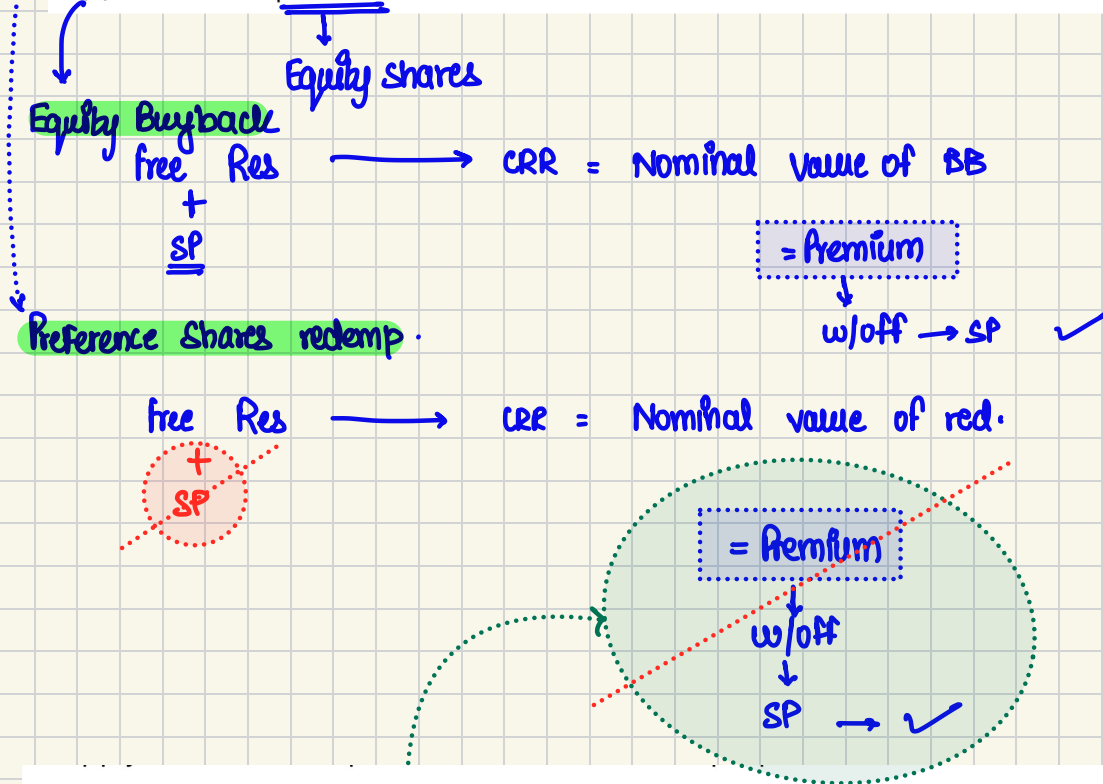
Dr.	2500,000	
Dr.	500,000	
		3000,000

10/. Debentures
To, Investment in own debentures
To, P&L

Dr.	330,000	
		300,000
		30,000

(d) To provide for premium on the redemption of redeemable preference shares or debentures of the company.

(e) For the purchase of its own shares or other securities.



Note: All the questions in this chapter have been solved on the basis that the companies referred in the questions are governed by Section 133 of the Companies Act, 2013 and comply with the Accounting Standards prescribed for them. Accordingly the balance in securities premium account has not been utilized for the purpose of premium payable on redemption of preference shares.

MAXIMUM PERMISSIBLE BUYBACK

1) Shares Outstanding Test :- maximum 25% of Number of shares outstanding.

Equity

✓

Preference

×

2) Resources Test :- maximum 25% of (Paidup Capital + free Reserves + Securities Prem.)

Equity

✓

Preference

×

Example :- x Hd :-

Equity Share Capital = 500,000
 General Reserves = 100,000
 P&L surplus = 200,000
 Securities Premium = 250,000

Buyback Price = ₹ 30/share.

Calculate Buyback as per resources test.

Solution :- Resources Test :- 25% × (Paidup capital + free Reserves + Securities Premium)

$$= 25\% \times (500,000 + 100,000 + 200,000 + 250,000)$$

Total amount of buyback = ₹ 262,500

Buyback price /share = 30

No. of shares = 8750 shares.

3) Debt Equity Ratio Test :- After buyback ; $\frac{\text{Total Debt}}{\text{Total Equity}} \leq \frac{2}{1}$

Example :-

1. Total Debt before buyback = 500,000
2. Paid up Equity Capital = 300,000
3. General Reserve = 50,000
4. P&L a/c = 25,000
5. Securities Premium = 25,000

Calculate maximum permissible buyback as per Debt Equity Ratio Test.

Solution :- After buyback ; $\frac{\text{Total Debt}}{\text{Total Equity}} \leq \frac{2}{1}$

1. Total Debt after buyback = 500,000 $\frac{2}{1}$
 2. Total Equity after buyback = 250,000 1

3. Total Equity before buyback = 4000.000

(Paidup + free Reserve + Sec. Premium)

Equity SH funds

4. Equity that can be bought back = 1500.000

Equity SH funds

5. Number of share that can be BB = 37.500 E.S.
(1500.000 $\times$ 1/40)

SH : Buyback

1

x
= 37.500

Equity Shareholders funds

Paidup Cap

FV = 10 $\downarrow$
(Assumed)

Free Res

FV = 10 $\downarrow$
(FR $\rightarrow$ CRR)

Securities Prem.

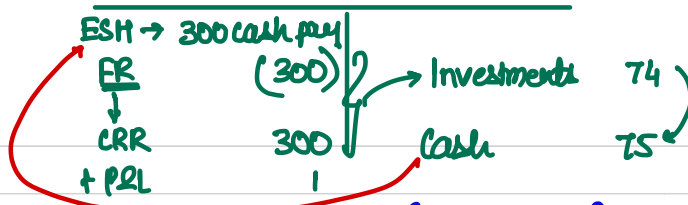
P = 20 $\downarrow$ = 40

BBP = 30
P = 20

1500.000

Naman Shortcut :- BBP + NV
30 + 10 = 40

Question 1:-



Free Reserves $\longrightarrow$ Capital Redemption Reserve = Nominal Value of BB
 SP 175 $\longrightarrow$ 175 = 300

GR 265 $\longrightarrow$ 125
300

P&L 170

$$P = 30 \times 5 = \underline{150} \text{ (loss)}$$

1. Securities Premium a/c Dr. 175
 General Reserve a/c Dr. 125
 To, Capital Redemption Reserve 300

2. Equity Share Capital a/c Dr. 300
 Premium on buyback a/c (30x5) Dr. 150
 To, Equity Shareholders / Equity Share buyback 450

3. Equity Shareholders / Equity share buyback 450
 To, Bank 450

4. General Reserves Dr. 140
 P&L Dr. 10
 To, premium on buyback 150

5. Bank Dr. 75
 To, Investments 74
 To, P&L 1

6. Capital Redemption Reserve Dr. 225
 To, Bonus to Equity Shareholders 225

7. Bonus to Equity Shareholders Dr. 225
 To, Equity Share Capital 225

Company's Act : Bonus Issue

Reserves Dr. 225 } Capitalisation of Reserve
 Esc Cr. 225

1: Capital Redemption Reserve - only 1 use - Bonus Issue

New Bonus / Existing W
 N : E W
 1 : 4 90L
 = 22.5L
X 10
225L

1. Fresh Issue → No entry - Entry already done.

2. ESC Dr. 6L
Prem on BB 3L
To, ESH / ESBB 9L

3. ESH / ESBB 9L
To, Bank 9L

4. Sec. Premium 3L
To, Prem on BB 3L

5. RR Dr. 20L
To, CRR 20L

FR → CRR = NY of red
RR 40L → 20L = 20L
P - 2L

6. 9% PSC Dr. 20L
Prem on red Dr. 2L
To, PSH 22L

P = 2L

7. PSH Dr. 22L
To, Bank 22L

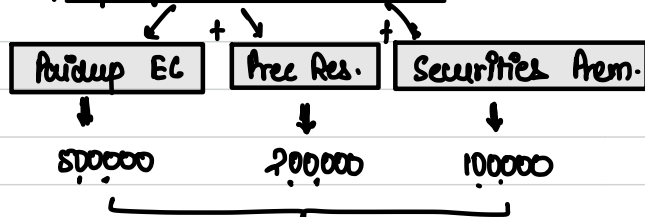
8. RR Dr. 2L
To, prem on red 2L

9. 10% Debentures Dr. 8.3L
To, Invest in Deb. 3L
To, P&L a/c 30k

10. Bank Dr. 25L
(P&L) RR Dr. 5L
To, Investments 30L

MAXIMUM PERMISSIBLE BUYBACK

1. Resource Test = 25% (Equity Shareholders funds)



800,000

x 25%

2 200,000 → Total Amount

3 15% sh → BBP

13333.33 → No.

13333 → No. of shares

Issued = 1,00,000

NO

Company Act

3 Tests

LOWEST

2. Shares outstanding Test :- 25% Number of equity shares outstanding
 = 25% x 1,00,000
 = 25,000 E.S.

3. Debt Equity Ratio :- After buyback ; $\frac{\text{Total Debt}}{\text{Total Equity}} \leq \frac{2}{1}$

Total Debt = Short Term Debt + Long Term Debt

↳ Equity Share holder funds



↳ Assume

Total Debt = 4,00,00,000 → "Before buyback"

1. Total Debt After buyback = 4,00,00,000

2. Total Equity After buyback = 20,00,00,000

3. Total Equity before buyback = 35,00,00,000

4. Maximum equity that can be BB = 15,00,00,000

5. Number of shares that can be BB = 37,500 E.S.

$(15,00,00,000 \times \frac{1}{40})$

= 2 Assumed

= 1

Assumed

FR → CRR = $\frac{MV}{BV}$

$\frac{10}{30}$ BBP = $\frac{30}{10}$

Equity: E.S. FR SP Equity

10 ↓ 10 ↓ 20 ↓ 40 ↓

15% BB :

x
= 37,500 E.S.

15,00,00,000



→ Debt remains unaffected.

T₁ : Sh. o/s Test :- $33 \times 25\% = 8.25 \text{ cr. sh.}$

T₂ : Resources Test :- $(330 + 240 + 90 + 90) \times 25\% = ₹ 187.5 / 30 = 6.25 \text{ cr. sh.}$

T₃ : Debt Equity Ratio Test

Particulars		C I	C II	C III
		L = 1200	L = 1500	L = 1800
1. Total Debt after buyback	2	1200	1500	1800
2. Total Equity after buyback	1	600	750	900
3. Total Equity before buyback		750	750	750
4. Equity that can be bought back		150	0	0
5. No. of shares that can be BB		3-75cr.	0	0

$$\frac{1800}{750} = \frac{2.4}{1}$$

ESHF				
	PVC	FR	SP	
1 SH	10↓	10↓	20↓	= 40
2				150
3-75cr.				

NOTE :- In the 3rd case, total equity before BB is 750 and the total equity required after buyback is 900 which is greater than the present amount. Hence we cannot buyback any equity because buying back equity will further reduce the equity below 750. The debt equity ratio before buy back already exceeds 2:1, hence buying back shares will further inflate the debt equity ratio.

Question 7 :-

Redemption of Preference Shares

Free Reserves $\longrightarrow$ Capital Redemption Res = Nominal Value of redemp-
= 2000000

$$\begin{array}{r} \text{Rev. Res} = 5000000 \\ - P = 2000000 \\ \hline 4800000 \end{array}$$

$\longrightarrow$ 2000000

$$P = 200000$$

Buyback of Equity shares

Free Reserves $\longrightarrow$ Capital Redemption Res = Nominal Value of Buyback
= 3000000

$$\text{Rev Res} = 2800000 \longrightarrow 2800000$$

200000

200000

$$\begin{array}{r} \text{Sec Rem} = 6000000 \\ - P = 6000000 \\ \hline 0 \end{array}$$

$$\text{ESOP Exer} = 1000000$$

$$\begin{array}{r} P = 300000 \times 20 \\ = 6000000 \end{array}$$

Revenue Reserves
To, Premium on redemption

Dr. 200000
200000

Revenue Reserves
To, Capital Redemption Reserve

Dr. 2000000
2000000

9). Preference Share Capital
Premium on redemption
To, Preference shareholders

Dr. 2000000
Dr. 200000
2200000

Preference Shareholders
To, Bank

Dr. 2200000
2200000

Revenue Reserve
To, Capital Redemption Reserve

Dr. 2800000
2800000

Securities Premium
To, Capital Redemption Reserve

Dr. 200000
200000

Securities Premium
To, premium on buyback

Dr. 6000000
6000000

Equity share Capital
Premium on buyback
To, Equity Shareholders

Dr. 3000000
Dr. 6000000
9000000

Equity shareholders
To, Bank

Dr. 90,00,000
90,00,000

10% Debentures
To, Investment in own debentures
To, P&L

Dr. 22,00,000
20,00,000
20,000

Bank (50,000 x 20)

Dr. 10,00,000

P&L → Employee Stock Option Plan (50,000 x 10)

Dr. 50,00,000

To, Equity share Capital (50,000 x 10)

50,00,000

To, Securities Premium (50,000 x 20)

10,00,000

Question 7:-

Redemption of Preference Shares

Free Reserve $\longrightarrow$ Capital Redemption Res. = Nominal Value of Redemption
2000000

RR 50L
 - 2L
 48L

SP 60L

$\longrightarrow$ 20L

$$P = 200000$$

Note: All the questions in this chapter have been solved on the basis that the companies referred in the questions are governed by Section 133 of the Companies Act, 2013 and comply with the Accounting Standards prescribed for them. Accordingly the balance in securities premium account has not been utilized for the purpose of premium payable on redemption of preference shares.

Equity Share Buyback

Free Reserves $\longrightarrow$ Capital Redemption Res = Nominal Value of Buyback
RR 28L $\longrightarrow$ 28L = 3000000

2L
30L

SP 60L + 10L
 - P (60L)
 0

$$P = 300000 \times 20 \\ = \underline{\underline{6000000}}$$

1. ✓ Revenue Reserves a/c 1.4.12 ✓ To Capital Redemption Res a/c	Dr.	2000,000	2000,000
2. ✓ 9% Preference Share Capital ✓ Premium on Redemption 1.4.12 ✓ To Preference Shareholders	Dr. Dr.	2000,000 200,000	2200,000
3. ✓ Preference Shareholders 1.4.12 ✓ To Bank	Dr.	2200,000	2200,000
4. ✓ Revenue Reserves 1.4.12 ✓ To Premium on redemption	Dr.	200,000	200,000
1.4.12 ✓ Revenue Reserve ✓ Securities Premium ✓ To Capital Redemption Res.	Dr. Dr.	2800,000 200,000	3000,000
1.4.12 ✓ Equity Share Capital ✓ Premium on buyback ✓ To Equity Shareholders / Equity Share Buyback	Dr.	3000,000 6000,000	9000,000
1.4.12 ✓ Equity share buyback ✓ To Bank	Dr.	9000,000	9000,000
1.4.12 ✓ Securities Premium ✓ To Premium on buyback	Dr.	6000,000	6000,000
1.4.12 ✓ 10% Debentures (FV) ✓ To Investment in own debentures ✓ To, <u>P&L</u> Revenue Res.	Dr.	220,000	200,000 20,000
1.4.12 ✓ Bank ✓ Employee stock option Plan (Reserve) ✓ To Equity Share Capital ✓ To Securities Premium	Dr. Dr.	50000 x 20 50000 x 10	50000 x 10 50000 x 20
MV = 30 Exercise Price = 20			

Bls

ERL
SHF
SC ;

ESC
PSC

7SL
0

RQS :

Cap. Res.
Rev. Res.
Sec. Prem.
CRR

8L
20k
8L
50L

NCL :

LTB : 10% Deb.

1-8L

CL :

65L
20300,000

Assets

NCA

PPE

50L

IA

x

NCI

118L

ONCA

x

LRA

x

CA :

40L

20300,000