

## AS-13

# Buy Back Of Securities

## Question 1

**What are the conditions to be fulfilled by a Joint Stock Company to buy-back its equity shares as per Companies Act, 2013? Explain in brief. (Old & New SM) (PYP 5 Marks May '23)**

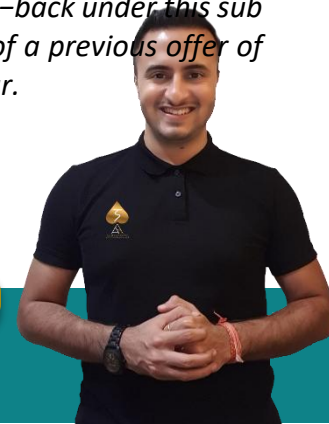
## Answer 1

Section 68 to 70 of the Companies Act, 2013 lays down the provisions for a company to buy-back its own equity shares. The Companies Act, 2013 under Section 68 (1) permits companies to buy-back their own shares and other specified securities out of:

- (i) Its free reserves; or
- (ii) The securities premium account; or
- (iii) The proceeds of the issue of any shares or other specified securities.

Note: No buy-back of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities. For example, if equity shares are to be bought-back, then, preference shares may be used for the purpose. The other important provisions relating to the buy-back are:

- (1) Section 68 (2) further states that no company shall purchase its own shares or other specified securities unless—
  - (a) the buy-back is authorized by its articles;
  - (b) a special resolution has been passed in general meeting of the company authorising the buy-back; However, the above provisions do not apply where the buy-back is ten percent or less of the paid-up equity capital + free reserves and is authorized by a board resolution passed at a duly convened meeting of the directors. Hence, in case the buy-back is up to 10% of paid up equity + free reserves, the same may be done with the authorization of the Board Resolution without the necessity of its being authorized by the articles of association of the company and by a special resolution of its members passed at a general meeting of the company.
  - (c) the buy-back must be equal or less than twenty-five per cent of the total paid-up capital and free reserves of the company: (Resource Test)
  - (d) Further, the buy-back of shares in any financial year must not exceed 25% of its total paid-up capital and free reserves: (Share Outstanding Test)
  - (e) the ratio of the debt owed by the company (both secured and unsecured) after such buy-back is not more than twice the total of its paid-up capital and its free reserves: (Debt-Equity Ratio Test) **Note:** Central Government may prescribe a higher ratio of the debt than that specified under this clause for a class or classes of companies. Debt here should include both long-term debt as well as short term debt.
  - (f) all the shares or other specified securities for buy-back are fully paid-up;
  - (g) the buy-back of the shares or other specified securities listed on any recognized stock exchange is in accordance with the regulations made by the Securities and Exchange Board of India in this behalf;
  - (h) the buy-back in respect of shares or other specified securities other than those specified in clause (f) is in accordance with the guidelines as may be prescribed. Provided that no offer of the buy-back under this sub section shall be made within a period of one year reckoned from the date of closure of a previous offer of buy-back if any. This means that there cannot be more than one buy-back in one year.





**(2)** The notice of meeting at which special resolution is supposed to be passed must be accompanied by an explanatory statement stating—

- a. a full and complete disclosure of all material facts;
- b. the necessity of the buy-back;
- c. the class of security intended to be purchased under the buy-back;
- d. the amount to be invested under the buy-back;
- e. the time limit for completion of the buy-back.

**(3)** Every buy-back shall be completed within twelve months from the date of passing the special resolution, or the resolution passed by the board of directors.

**(4)** The buy-back may be—

- a. from the existing
- b. security holders on a proportionate basis; or
- c. from the open market; or
- d. by purchasing the securities issued to employees of the company pursuant to a scheme of stock option or sweat equity.

**(5)** Where a company has passed a special resolution under clause (b) of Sub-section (2) to buy-back its own shares or other securities under this section, it shall, before making such buy-back, file with the Registrar and the Securities and Exchange Board of India a declaration of solvency in the form as may be prescribed and verified by an affidavit to the effect that the Board of Directors has made a full inquiry into the affairs of the company as a result of which they have formed an opinion that it is capable of meeting its liabilities and will not be rendered insolvent within a period of one year of the date of declaration adopted by the Board of Directors. It must be signed by at least two directors of the company, one of whom shall be the managing director, if any:

**Note:**

1. No declaration of solvency shall be filed with the Securities and Exchange Board of India by a company whose shares are not listed on any recognised stock exchange
2. Where a company buys-back its own securities, it shall extinguish and physically destroy the securities so bought-back within seven days of the last date of completion of buy-back.
3. Where a company completes a buy-back of its shares or other specified securities under this section, it shall not make further issue of same kind of shares (including allotment of further shares under clause of Sub-section (1) of Section (62) or other specified securities within a period of six months except by way of bonus issue or in the discharge of subsisting obligations such as conversion of warrant stock option scheme, sweat equity or conversion of preference shares or debentures into equity shares.
4. Where a company buy-back its securities under this section, it shall maintain a register of the securities so bought, the consideration paid for the securities bought-back, the date of cancellation of securities, the date of extinguishing and physically destroying of securities and such other particulars as may be prescribed.
5. A company shall, after the completion of the buy-back under this section, file with the Registrar and the Securities and Exchange Board of India, a return containing such particulars relating to the buy-back within thirty days of such completion, as may be prescribed, provided that no return shall be filed with the Securities and Exchange Board of India by a company whose shares are not listed on any recognised stock exchange.





6. If a company makes default in complying with the provisions of this section or any regulations made by SEBI in this regard, the company may be punishable with a fine which shall not be less than Rs One Lakh but which may extend to three lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for upto 3 years or with a fine of not less than one lakh rupees but which may extend to three lakh rupees or with both.
7. Section 69 (1) states that where a company purchases its own shares out of the free reserves or securities premium account, a sum equal to the nominal value of shares so purchased shall be transferred to the Capital Redemption Reserve Account and details of such account shall be disclosed in the Balance Sheet.
8. The shares or other specified securities which are proposed to be bought- back must be fully paid-up.
9. The Capital Redemption Reserve Account may be applied by the company in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares.
10. Premium (excess of buy-back price over the par value) paid on buy-back should be adjusted against free reserves and/or securities premium account. Revaluation reserve represents unrealized profit and hence it cannot be used for buy-back of securities
11. No company shall directly or indirectly purchase its own shares or other specified securities—
  - through any subsidiary company including its own subsidiary companies; or
  - through any investment company or group of investment companies; or
  - if a default is subsisting, in repayment of deposit or interest payable thereon, redemption of debentures or preference shares or payment of dividend to any shareholder or repayment of any term loan or interest payable thereon to any financial institutions or bank. Provided that the buy-back is not prohibited if the default is remedied and a period of three years has elapsed since the cessation of the default.

In accordance with schedule III, no company shall directly or indirectly purchase its own shares or other specified securities in case such company has not complied with provisions of Sections 92 (filling of annual return), 123 (payment of dividend within 30 days of declaration), 127 (failure to distribute dividend) and 129 (preparation of financial statement of the company).

### Question 2

The following was the summarized balance sheet of Bhoomi Ltd. as on 31<sup>st</sup> March, 2020:

Equity & liability	Rs (in lakhs)	Assets	Rs (in lakhs)
<b>Authorized Capital:</b>		<b>Property, plant and equipment</b>	<b>1,12,000</b>
Equity shares of Rs 10 each	80,000	Investments	24,000
<b>Issued Capital</b>		Cash at Bank	13,200
Equity Shares of Rs10 each Fully Paid up	64,000	Trade Receivables	66,000
10% Redeemable Preference Shares of 10 each, Fully Paid Up	20,000		
<b>Reserves &amp; Surplus:</b>			
Capital Redemption Reserve	8,000		
Securities Premium	6,400		
General Reserve	48,000		
Profit & Loss Account	2,400		





9% Debentures	40,000		
Trade Payables	26,400		
	2,15,200		2,15,200

On 1st April, 2020 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 25% of its Equity Shares at Rs20 per Share. In order to make Cash available, the Company sold all the Investments for Rs25,000 Lakhs and raised a Bank Loan amounting to Rs16,000 lakh on the Security of the Company's Plant. Give the necessary Journal Entries considering that the buy back is authorised by the articles of company and necessary resolution is passed by the company for this. The amount of Securities premium may be utilized to the maximum extent allowed by law.

**(MTP 8 Marks Oct '20, Oct'21 & Oct '23, MTP 12 Marks Oct'19)(Same concept different figures RTP May'20)**

**Answer 2**

**Journal entries in the books of Bhoomi Ltd.**

	Dr.	Cr.
	Rs in lakhs	
Bank A/c To Investments A/c To Profit and Loss A/c (Being Investments sold and, profit being credited to Profit and Loss Account)	Dr.   	25,000   24,000 1,000
10% Redeemable Preference Share Capital A/c Premium payable on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being amount payable on redemption of Preference shares, at a Premium of 10%)	Dr. Dr.	20,000 2,000 22,000
Securities Premium A/c To Premium payable on Redemption of Preference Shares A/c (Being Securities Premium utilized to provide Premium on Redemption of Preference Shares)	Dr.	2,000 2,000
Equity Share Capital A/c Premium payable on Buyback A/c To Equity Share buyback A/c (Being the amount due on buy-back)	Dr. Dr.	16,000 16,000 32,000
Securities Premium A/c (6,400 – 2,000) General Reserve A/c (balancing figure) To Premium payable on Buyback A/c (Being premium on buyback provided first out of Securities Premium and the balance out of General Reserves.)	Dr. Dr.	4,400 11,600 16,000





Bank A/c To Bank Loan A/c (Being Loan taken from Bank to finance Buyback)	Dr.	16,000	16,000
Preference Shareholders A/c Equity Shares buy back A/c To Bank A/c (Being payment made to Preference Shareholders and Equity Shareholders)	Dr. Dr.	22,000 32,000	54,000
General Reserve Account To Capital Redemption Reserve Account (Being amount transferred to Capital Redemption Reserve Account to the extent of face value of preference shares redeemed and equity Shares bought back) (20,000 + 16,000)	Dr.	36,000	36,000

### Question 3

SMM Ltd. has the following capital structure as on 31st March, 2017: Rs. in crore

Particulars	Situation	Situation
(i) Equity share capital (shares of Rs. 10 each)	1,200	1,200
(ii) Reserve		
General Reserves	1,080	1,080
Securities Premium	400	400
Profit & Loss	200	200
Infrastructure Development Reserve (Statutory Reserve)	320	320
(iii) Loan Funds	3,200	6,000

The company has offered buy back price of Rs. 30 per equity share.

You are required to calculate maximum permissible number of equity shares that can be bought back in both situations and also required to pass necessary Journal Entries.

(MTP 10 Marks, Apr 19 & Mar 18, MTP 12 Marks Aug 18, Mar 19) (Same concept different figures PYP 15 Marks July'21)

### Answer 3

Statement determining the maximum number of shares to be bought back Number of shares (in crores)

Particulars	When loan fund is crores	
	Rs.3,200crores	Rs. 6,000 crores
Shares Outstanding Test (W.N.1)	30	30
Resources Test (W.N.2)	24	24
Debt Equity Ratio Test (W.N.3)	32	Nil
Maximum number of shares that can be bought back [least of the above]	24	Nil

Journal Entries for the Buy Back (applicable only when loan fund is Rs. 3,200 crores)

		Rs. in crores	
		Debit	Credit
(a) Equity Share buyback account	Dr.	720	
To Bank Account (Being payment for buy back of 24 crores equity shares of 10 each @ Rs. 30 per share)			720



(b) Equity share capital account	Dr.	240	
Premium Payable on buyback account	Dr.	480	
To Equity Share buyback account (Being cancellation of shares bought back)			720
Securities Premium account		400	
General Reserve / Profit & Loss A/c	Dr.	80	
To Premium Payable on buyback account (Being Premium Payable on buyback account charged to securities premium and general reserve/Profit & Loss A/c)			480
(C). General Reserve / Profit & Loss A/c	Dr.	240	
To Capital redemption reserve account (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)			240

### Working Notes:

#### 1. Shares Outstanding Test

Particulars	(Shares in crores)
Number of shares outstanding	120
25% of the shares outstanding	30

#### 2. Resources Test

Particulars	(Rs. in crores)
Paid up capital	1,200
Free reserves (Rs. in crores) (1,080 + 400 + 200)	1,680
Shareholders' funds (Rs. in crores)	2,880
25% of Shareholders fund (Rs. in crores)	Rs. 720 crores
Buy back price per share	Rs. 30
Number of shares that can be bought back	24 crores shares

#### 3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds Post Buy Back

Particulars	When loan fund is	
	Rs. 3,200 crores	Rs. 6,000 crores
(a) Loan funds (Rs.)	3,200	6,000
(b) Minimum equity to be maintained after buy back in the ratio of 2:1 (Rs.) (a/2)	1,600	3,000
(c) Present equity shareholders fund (Rs.)	2,880	2,880





(d) Future equity shareholders fund (Rs.) (see W.N.4)	2,560 (2,880–320)	N.A.
(e) Maximum permitted buy back of Equity (Rs.) [(d) – (b)]	960	Nil
(f) Maximum number of shares that can be bought back @ Rs. 30 per share	32 crore shares	Nil
As per the provisions of the Companies Act, 2013, company	Qualifies	Does not Qualify

**Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method**

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'  
Then

Equation 1 : (Present Equity– Transfer to CRR)– Minimum Equity to be maintained = Maximum Permitted Buy Back

$$= (2,880 - x) - 1,600 = y$$

$$= 1280 - x = y \quad (1)$$

Equation 2: Maximum Permitted Buy Back X Nominal Value Per Share/Offer Price Per Share

$$\left( = \frac{y}{30} \times 10 \right) = x \text{ or } 3x = y \quad (2)$$

by solving the above two equations we get x= Rs. 320      y = Rs. 960

#### Question 4

Following is the summarized Balance Sheet of Complicated Ltd. as on 31st March, 2016:

Liabilities	Amount (Rs.)
Equity shares of Rs. 10 each, fully paid up	12,50,000
Bonus shares of Rs. 10 each, fully paid up	1,00,000
Share option outstanding Account	4,00,000
Revenue Reserve	15,00,000
Securities Premium	2,50,000
Profit & Loss Account	1,25,000
Capital Reserve	2,00,000
Unpaid dividends	1,00,000
12% Debentures (Secured)	18,75,000
Advance from related parties (Unsecured)	10,00,000
Current maturities of long term borrowings	16,50,000
Application money received for allotment due for refund	2,00,000
	86,50,000
Property, Plant & Equipment	46,50,000
Current Assets	40,00,000
	86,50,000

The Company wants to buy back 25,000 equity shares of Rs. 10 each, on 1st April, 2016 at Rs. 20 per share. Buy back of shares is duly authorized by its Articles and necessary resolution has been passed by the Company towards this. The buy -back of shares by the Company is also within the provisions of the Companies Act, 2013. The payment for buy back of shares will be made by the Company out of sufficient bank balance available shown as part of Current Assets. You are required to prepare the necessary journal entries towards buy back of shares and prepare the Balance Sheet after buy back of shares.

**(MTP 15 Marks Oct 18)(Same amount different figures RTP May'18, May'22, Old & New SM)**



**Answer 4**

As per the information given in the Question, buy-back of 25,000 shares @ Rs. 20, as desired by the company, is within the provisions of the Companies Act, 2013.

**Journal Entries for buy-back of shares**

		<b>Debit</b>	<b>Credit</b>
(a) Equity Share buyback account	Dr.	5,00,000	
To Bank Account (Being buy back of 25,000 equity shares of Rs. 10 each @ Rs. 20 per share)			5,00,000
(b) Equity shares capital account	Dr.	2,50,000	
Securities premium account		2,50,000	
To Equity shares buy-back account (Being cancellation of shares bought back)			5,00,000
(c) Revenue reserve account		2,50,000	
To Capital redemption reserve account (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital bought back through free reserves)			2,50,000

**Balance Sheet of Complicated Ltd.as on 1st April, 2016**

<b>Particulars</b>	<b>Note No</b>	<b>Amount Rs.</b>
<b>EQUITY AND LIABILITIES</b>		
1. Shareholders' funds		
(a) Share capital	1	11,00,000
(a) Reserves and Surplus	2	22,25,000
2. Non-current liabilities		
(a) Long-term borrowings	3	28,75,000
3. Current liabilities		
(a) Other current liabilities	4	19,50,000
<b>Total</b>		<b>81,50,000</b>
<b>ASSETS</b>		
1. Non-current assets		
(a) Property, Plant & Equipment		46,50,000
2. Current assets (40,00,000-5,00,000)		35,00,000
<b>Total</b>		<b>81,50,000</b>

**Notes to Accounts**

		<b>Rs.</b>	<b>Rs.</b>
1. Share Capital			
Equity share capital			
1,10,000 Equity shares of Rs.10 each			11,00,000
2. Reserves and Surplus			
Profit and Loss A/c		1,25,000	



	Revenue reserves	15,00,000		
	Less: Transfer to CRR	(2,50,000)	12,50,000	
	Securities premium	2,50,000		
	Less: Utilization for share buy-back	(2,50,000)	-	
	Share Option Outstanding Account		4,00,000	
	Capital Reserve		2,00,000	
	Capital Redemption Reserve		2,50,000	22,25,000
3.	Long-term borrowings			
	Secured			
	12% Debentures		18,75,000	
4.	Unsecured loans		10,00,000	28,75,000
	Other Current Liabilities			
	Current maturities of long term borrowings		16,50,000	
	Unpaid dividend		1,00,000	
	Application money received for allotment due for refund		2,00,000	19,50,000

### Question 5

SM Limited gives the following information as on 31st March, 2023:

		Rs
Share capital		
(60,000 Equity Shares of Rs 10 Each)		6,00,000
Reserve & Surplus:		
Security premium	Rs 70,000	
General reserve	Rs 63,000	
Profit and Loss	Rs 1,40,000	2,73,000
Non-current liability:		
9% debentures (secured)		3,00,000
Current Liabilities:		
Term loan		40,000
Creditors		65,000
Provision for taxation		15,000
Property plant and equipment		6,00,000
Non-current investment		1,50,000
Current assets:		
Stock	Rs 2,00,000	
Debtors	Rs 2,60,000	
Bank	Rs 83,000	5,43,000

The shareholders adopted the resolution on 31st March, 2020 to:

- (i) Buy back 25% of the paid up capital @ Rs 15 each.
- (ii) Issue 10% debentures of Rs 60,000 at a premium of 10% to finance the buyback of shares.
- (iii) Maintain a balance of Rs 20,000 in General Reserve.
- (iv) Sell investments worth Rs 1,00,000 for Rs 80,000.
- (v) Buy back expenses were Rs 2,000.





You are required to pass necessary journal entries to record the above transactions and prepare Ledger account of Bank.

(MTP 8 Marks Nov

'21 & April '23)

Answer 5

In the books of SM Limited Journal Entries

	Particulars		Dr.	Cr.
			Rs	Rs
1.	Equity share capital A/c (15,000 x Rs10)	Dr.	1,50,000	
	Premium on buyback A/c (15,000 x Rs5)	Dr.	75,000	
	Equity shares buy back or Equity Shareholders A/c (15,000 x Rs15) (Being the amount due to equity shareholders on buy back)			2,25,000
2.	Equity shares buy back/Equity shareholders A/c Dr.	Dr.	2,25,000	
	To Bank A/c			2,25,000
	(Being the payment made on account of buy back of 15,000 Equity Shares as per the Companies Act)			
3.	Bank A/c	Dr.	66,000	
	To 10 % Debentures A/c			60,000
	To Securities Premium A/c			6,000
	(Being 14 % debentures issued to finance buy back)			
4.	Buyback Expenses A/c	Dr.	2,000	
	To Bank A/c			2,000
	(Buyback expenses paid)			
5.	Bank A/c	Dr.	80,000	
	Profit and Loss A/c (Loss on sale of investment)		20,000	
	To Investment A/c			1,00,000
	(Being investment sold at loss)			
6.	General reserve	Dr.	43,000	
	Profit and Loss A/c	Dr.	1,07,000	
	To Capital redemption reserve A/c			1,50,000
	(Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law)			
7.	Securities Premium	Dr.	75,000	
	Profit and Loss A/c	Dr.	2,000	
	To Premium on buyback			75,000
	To Buyback Expenses A/c			2,000
	(Being premium on buyback and buyback expenses charged to securities premium and profit and loss account)			

#### Bank Account

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Balance b/d	83,000	By Equity Shareholders A/c	2,25,000
To Investment A/c	80,000	By Expenses on buy back of shares	2,000





To 10% Debentures and Securities premium	66,000	By Balance c/d	2,000
Total	2,29,000	Total	2,29,000

**Note:**

It may be noted that as per the provisions of the Companies Act, no buy-back of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities. Issue of debentures has been excluded for the purpose of "specified securities" and the entire amount of Rs 1,50,000 has been credited to CRR while solving the Question.

**Question 6**

Alpha Ltd. furnishes the following information as at 31st March, 2021:

	Rs In lakhs	Rs In lakhs
<b>Shareholders' Funds</b>		
Equity share capital (fully paid up shares of Rs 10 each)		2,400
<b>Reserves and Surplus</b>		
Securities Premium	350	
General Reserve	530	
Capital Redemption Reserve	400	
Profit & Loss Account	340	1,620
<b>Non-current Liabilities</b>		
12% Debentures		1,500
<b>Current Liabilities</b>		
Trade Payable's	1,490	
Other Current Liabilities	390	1,880
<b>Non-current Assets</b>		
Property, plant and equipment		4,052
<b>Current Assets</b>		
Current Investments	148	
Inventories	1,200	
Trade Receivables	520	
Cash and Bank	1,480	3,348

- 1) On 1st April, 2021, the company announced buy-back of 25% of its equity shares @ Rs 15 per share. For this purpose, it sold all its investment for Rs 150 lakhs.
- 2) On 10th April, 2021 the company achieved the target of buy-back.
- 3) On 30th April, 2021, the company issued one fully paid up equity share of Rs 10 each by way of bonus for every four equity shares held by the equity shareholders by capitalization of Capital Redemption Reserve. Premium (excess of buy-back price over the par value) paid on buy-back should be adjusted against securities premium account.

You are required to pass necessary journal entries and prepare the Balance Sheet of Alpha Ltd. after bonus issue. (MTP 12 Marks Mar'22, PYP 10 Marks May '18) (Same concept different figures RTP May'21, RTP May'19, PYP 5 Marks Nov'22)

**Answer 6**



**In the books of Alpha Limited Journal Entries**

Date	Particulars		Dr.	Cr.
<b>2021</b>			<b>(Rs in lakhs)</b>	
April 1	Bank A/c	Dr.	150	
	To Investment A/c			148
	To Profit on sale of investment			2
	<i>(Being investment sold on profit)</i>			
April 10	Equity share capital A/c	Dr.	600	
	Securities premium A/c	Dr.	300	
	To Equity shares buy back A/c			900
	<i>(Being the amount due to equity shareholders on buy back)</i>			
	Equity shares buy back A/c	Dr.	900	
	To Bank A/c			900
	<i>(Being the payment made on account of buy back of Rs 60 Lakh Equity Shares)</i>			
April 10	General reserve A/c	Dr.	530	
	Profit and Loss A/c	Dr.	70	
	To Capital redemption reserve (CRR) A/c			600
	<i>(Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law)</i>			
April 30	Capital redemption reserve A/c	Dr.	450	
	To Bonus shares A/c (W.N.1)			450
	<i>(Being the utilization of capital redemption reserve to issue bonus shares)</i>			
	Bonus shares A/c	Dr.	450	
	To Equity share capital A/c			450
	<i>(Being issue of one bonus equity share for every four equity shares held)</i>			
	Profit on sale of Investment To Profit and Loss A/c	Dr.	2	
	<i>(Profit on sale transfer to Profit and Loss A/c)</i>			2

**Note:**

For transferring amount equal to nominal value of buy back shares from free reserves to capital redemption reserve account, the amount of Rs 340 lakhs from P & L A/c and the balance from general reserve may also be utilized. The combination of different set of amounts (from General Reserve and Profit and Loss Account) aggregating Rs 600 lakhs may also be considered for the purpose of transfer to CRR.

**Note:**

For transferring amount equal to nominal value of buy back shares from free reserves to capital redemption reserve account, the amount of Rs 340 lakhs from P & L A/c and the balance from general reserve may also be utilized. The combination of different set of amounts (from General Reserve and Profit and Loss Account) aggregating Rs 600 lakhs may also be considered for the purpose of transfer to CRR.



**(Balance Sheet (After buy back and issue of bonus shares))**

Particulars	Note No	Amount (Rs in Lakhs)
<b>I. Equity and Liabilities</b>		
(1) Shareholder's Funds	1	2,250
(a) Share Capital		
(b) Reserves and Surplus	2	872
(2) Non-Current Liabilities		
(a) Long-term borrowings – 12% Debentures		1,500
(3) Current Liabilities		
(a) Trade payables		1,490
(b) Other current liabilities		390
<b>Total</b>		<b>6,502</b>
<b>II. Assets</b>		
(1) Non-current assets		
(a) Property, plant and equipment		4,052
(2) Current assets		
(a) Current investments		
(b) Inventory		1,200
(c) Trade receivables		520
(d) Cash and cash equivalents (W.N. 2)		730
<b>Total</b>		<b>6,502</b>

**Notes to Accounts**

				Rs In lakhs
1.	Share Capital			
	Equity share capital (225 lakh fully paid up shares of Rs 10 each)			2,250
2.	Reserves and Surplus			
	General Reserve	530		
	Less: Transfer to CRR	(530)	–	
	Capital Redemption Reserve	400		
	Add: Transfer due to buy-back of shares from P/L	70		
	Add: Transfer due to buy-back of shares from Gen. res. 530			
	Less: Utilization for issue of bonus shares	(450)	550	
	Securities premium	350		
	Less: Adjustment for premium paid on buy back	(300)	50	
	Profit & Loss A/c	340		
	Add: Profit on sale of investment	2		
	Less: Transfer to CRR	(70)	272	872



**Working Notes:**

- Amount of equity share capital = 2,400 – 600 (buyback) + 450 (Bonus shares) = 2,250
- Cash at bank after issue of bonus shares

	Rs in lakhs
Cash balance as on 1st April, 2021	1480
Add: Sale of investments	150
	1630
Less: Payment for buy back of shares	(900)
	730

**Question 7**

Super Ltd. gives the following information as on 31st March, 2022.

Liabilities	In ₹
Equity Shares of ₹ 10 each fully paid up	17,00,000
Revenue Reserve	23,50,000
Securities Premium	2,50,000
Profit & Loss Account	2,00,000
Infrastructure Development Reserve	1,50,000
9% Debentures	38,00,000
Unsecured Loan	8,50,000
Property, plant & equipment	58,50,000
Current Assets	34,50,000

Super Limited wants to buy back 35,000 equity shares of ₹ 10 each fully paid up on 1st April, 2022 at ₹ 30 per share.

Buy Back of shares is fully authorised by its articles and necessary resolutions have been passed by the company towards this. The payment for buy back of shares will be made by the company out of sufficient bank balance available as part of the Current Assets. Comment with calculations, whether the Buy Back of shares by the company is within the provisions of the Companies Act, 2013. (MTP 10 Marks Oct'22, PYP 10 Marks May '19)

**Answer 7**

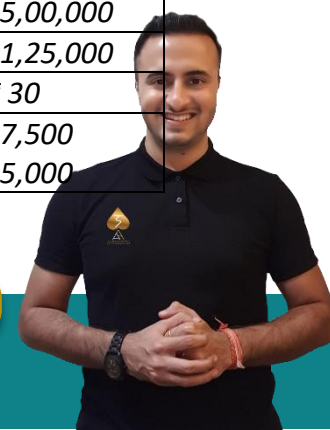
Determination of maximum no. of shares that can be bought back as per the Companies Act, 2013

**1. Shares Outstanding Test**

Particulars	(Shares)
Number of shares outstanding	1,70,000
25% of the shares outstanding	42,500

**2. Resources Test: Maximum permitted limit 25% of Equity paid up capital + Free Reserves**

Particulars	
Paid up capital (₹)	17,00,000
Free reserves (₹) (23,50,000 + 2,50,000 + 2,00,000)	28,00,000
Shareholders' funds (₹)	45,00,000
25% of Shareholders fund (₹)	11,25,000
Buy back price per share	₹ 30
Number of shares that can be bought back (shares)	37,500
Actual Number of shares proposed for buy back	35,000





**3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Shareholder's Funds Post Buy Back**

Particulars	₹
Loan funds (₹) (38,00,000+8,50,000)	46,50,000
Minimum equity to be maintained after buy back in the ratio of 2:1 (₹) (a/2)	23,25,000
Present equity/shareholders fund (₹)	45,00,000
Future equity/shareholders fund (₹) (see W.N.) (45,00,000 – 5,43,750)	39,56,250
Maximum permitted buy back of Equity (₹) [(d) – (b)]	16,31,250
Maximum number of shares that can be bought back @ ₹ 30 per share	54,375 shares
Actual Buy Back Proposed	35,000 Shares

**Summary statement determining the maximum number of shares to be bought back**

Particulars	Number of shares
Shares Outstanding Test	42,500
Resources Test	37,500
Debt Equity Ratio Test	54,375
Maximum number of shares that can be bought back [least of the above]	37,500

Company qualifies all tests for buy-back of shares and it can buy back maximum 37,500 shares on 1st April, 2022.

However, company wants to buy-back only 35,000 equity shares @ ₹ 30. Therefore, buy-back of 35,000 shares, as desired by the company is within the provisions of the Companies Act, 2013.

**Working Note:**

Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

Then

$$(45,00,000 - x) - 23,25,000 = y \quad (1) \quad \left( = \frac{y}{30} \times 10 \right) = x \quad \text{Or } 3x = y \quad (2)$$

by solving the above equation, we get  $x = ₹ 5,43,750$   $y = ₹ 16,31,250$

**Question 8**

**Pratham Ltd. (a non-listed company) has the following Capital structure as on 31st March, 2022:**

Particulars	₹	₹
Equity Share Capital (shares of ₹ 10 each fully paid)		30,00,000
Reserves & Surplus		
General Reserve	32,50,000	
Security Premium Account	6,00,000	
Profit & Loss Account	4,30,000	
Revaluation Reserve	6,20,000	49,00,000
Loan Funds		42,00,000

You are required to compute by Debt Equity Ratio Test, the maximum number of shares that can be bought back in the light of above information, when the offer price for buy back is ₹ 30 per share.

**(MTP 15 Marks March '23, Old & New SM, RTP Nov 20)(MTP 10 Marks Sep '23)**

**Answer 8**





### Debt Equity Ratio Test

	Particulars	₹
(a)	Loan funds	42,00,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (₹ in crores)	21,00,000
(c)	Present equity shareholders fund (₹ in crores)	72,80,000
(d)	Future equity shareholder fund (₹ in crores) (See Note 2)	59,85,000
		(72,80,000 – 12,95,000)
(e)	Maximum permitted buy back of Equity (₹ in crores) [(d) – (b)] (See Note 2)	38,85,000 (by simultaneous equation)
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores) (See Note 2)	1,29,500 (by simultaneous equation)

#### Working Note:

##### 1. Shareholders' funds

Particulars	₹
Paid up capital	30,00,000
Free reserves (32,50,000 + 6,00,000 + 4,30,000)	42,80,000
	72,80,000

2. As per section 68 of the Companies Act, 2013, amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

Suppose amount equivalent to nominal value of bought back shares transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

Equation 1 : (Present equity – Nominal value of buy-back transfer to CRR) – Minimum equity to be maintained = Maximum permissible buy-back of equity

$$(72,80,000 - x) - 21,00,000 = y \quad (1)$$

$$\text{Since } 51,80,000 - x = y$$

$$\text{Equation 2: } \left( \frac{\text{Maximum buy-back}}{\text{Offer price for buy-back}} \times \text{Nominal Value} \right)$$

= Nominal value of the shares bought – back to be transferred to CRR

$$= \frac{y}{10} \times 10 = x \quad 3x = y \quad (2)$$

$$x = ₹ 12,95,000 \text{ crores and } y = ₹ 38,85,000 \text{ crores}$$

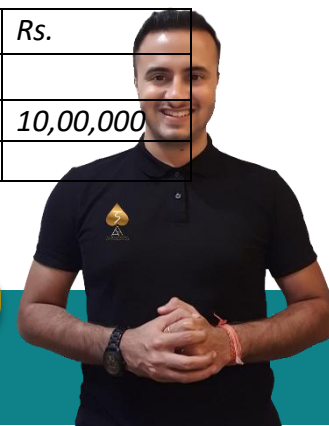
#### Question 9

Umesh Ltd. resolves to buy back 4 lakhs of its fully paid equity shares of Rs. 10 each at Rs. 22 per share. This buyback is in compliance with the provisions of the Companies Act and does not exceed 25% of Company's paid-up capital in the financial year. For the purpose, it issues 1 lakh 11% preference shares of Rs. 10 each at par, the entire amount being payable with applications. The company uses Rs. 16 lakhs of its balance in Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back. Give necessary journal entries to record the above transactions.

(RTP Nov 19, Nov'22)

#### Answer 9

			Rs.	Rs.
1.	Bank A/c	Dr.	10,00,000	
	To 11% Preference share application & allotment A/c			10,00,000
	(Being receipt of application money on preference shares)			





2.	11% Preference share application & allotment A/c	Dr.	10,00,000	
	To 11% Preference share capital A/c			10,00,000
	(Being allotment of 1 lakh preference shares)			
3.	General reserve A/c	Dr.	30,00,000	
	To Capital redemption reserve A/c			30,00,000
	(Being creation of capital redemption reserve for buy back of shares)			
4.	Equity shares capital A/c	Dr.	40,00,000	
	Premium payable on buyback A/c	Dr.	48,00,000	
	To Equity shareholders/Equity shares buy back A/c			88,00,000
	(Amount payable to equity shareholder on buy back)			
5.	Equity shareholders/ Equity shares buy back A/c	Dr.	88,00,000	
	To Bank A/c			88,00,000
	(Being payment made for buy back of shares)			
6.	Securities Premium A/c	Dr.	16,00,000	
	General reserve A/c		32,00,000	
	To Premium payable on buyback A/c			48,00,000
	(Being premium on buyback charged from securities premium and general reserve)			

**Working Notes:****1. Calculation of amount used from General Reserve Account**

	Rs.	Rs.
Amount paid for buy back of shares (4,00,000 shares x Rs. 22)		88,00,000
Less: Proceeds from issue of Preference Shares (1,00,000 shares x Rs.10)		(10,00,000)
Less: Utilization of Securities Premium Account		(16,00,000)
Balance used from General Reserve Account		62,00,000
* Used under Section 68 for buy back	32,00,000	
Used under Section 69 for transfer to CRR (W.N 2)	30,00,000	
	62,00,000	

**2. Amount to be transferred to Capital Redemption Reserve account**

	Rs.
Nominal value of shares bought back (4,00,000 shares x Rs.10)	40,00,000
Less: Nominal value of Preference Shares issued for such buy back (1,00,000 shares x Rs.10)	(10,00,000)
Amount transferred to Capital Redemption Reserve Account	<b>30,00,000</b>



**Question 10**

The following summarized Balance Sheet Pee Limited (a non-listed company) furnishes as at 31st March, 2017:

Equity & Liabilities	Share capital:	Rs.	Rs.
<b>Authorized capital</b>			
2,50,000 Equity shares of Rs. 10 each fully paid up		25,00,000	
5,000, 10% Preference shares of Rs. 100 each		5,00,000	30,00,000
<b>Issued and subscribed capital:</b>			
2,40,000 Equity shares of Rs. 10 each fully paid up		24,00,000	
3,000, 10% Preference shares of Rs. 100 each		3,00,000	27,00,000
<i>(Issued two months back for the purpose of buy back)</i>			
<b>Reserves and surplus:</b>			
Capital reserve		10,00,000	
Revenue reserve		25,00,000	
Securities premium		27,00,000	
Profit and loss account		35,00,000	97,00,000
<b>Current liabilities</b>			
Trade payables		13,00,000	
Other current Liabilities		3,00,000	16,00,000
<b>Total</b>			<b>1,40,00,000</b>
<b>Assets</b>			
<b>Tangible assets</b>			
Building		25,00,000	
Machinery		31,00,000	
furniture		20,00,000	76,00,000
Non-current Investments		30,00,000	
<b>Current assets</b>			
Inventory		12,00,000	
Trade receivables		7,00,000	
cash and bank balance		15,00,000	34,00,000
			<b>1,40,00,000</b>

On 1st April, 2017, the company passed a resolution to buy back 20% of its equity capital @ Rs. 60 per share. For this purpose, it sold all of its investment for Rs. 25,00,000.

The company achieved its target of buy-back. You are required to:

- (a) Give necessary journal entries and  
 (b) Give the Balance Sheet of the company after buy back of shares.

*(RTP Nov 18, Old & New SM)*

**Answer 10**
**Journal Entries in the books of Pee Limited**

Particulars	Dr.	Cr.
(i) Bank Account	Dr. 25,00,000	
Profit and Loss Account	Dr. 5,00,000	
To Investment Account		30,00,000
<i>(Being the investments sold at loss for the purpose of buy back)</i>		





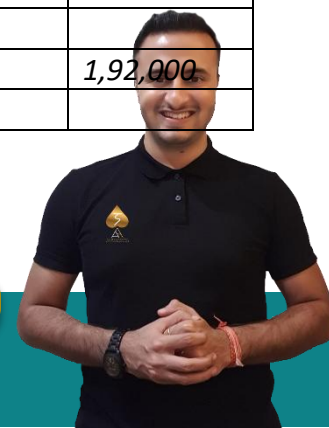
(ii) Equity Share capital account	Dr.	4,80,000	
Premium payable on buy back Account	Dr.	24,00,000	
To Equity shares buy back Account			28,80,000
(Being the amount due on buy back)			
(iii) Securities Premium Account	Dr.	24,00,000	
To Premium payable on buy back Account			24,00,000
(Being the premium payable on buy back adjusted against securities premium account)			
(iv) Revenue Reserve Account	Dr.	1,80,000	
To Capital Redemption Reserve Account			1,80,000
(Being the amount equal to nominal value of equity shares bought back out of free reserves transferred to capital redemption reserve account (4,80,000-3,00,000))			
(v) Equity shares buy-back Account	Dr.	28,80,000	
To Bank Account			28,80,000
(Being the payment made on buy back)			

**Balance Sheet of Pee Limited as on 1st April, 2017(After buy back of shares)**

Particulars	Note No	(Rs.)
I. Equity and Liabilities		
1. Shareholder's Funds		
(a) Share Capital	1	22,20,000
(b) Reserves and Surplus	2	68,00,000
(2) Current Liabilities		16,00,000
Total		1,06,20,000
II. Assets		
(1) Non-current assets		
(a) Fixed assets		76,00,000
(2) Current assets		30,20,000
Total		1,06,20,000

**Notes to Accounts**

1	Share Capital		(Rs.)
	Authorized capital:		30,00,000
	Issued and subscribed capital:		
	1,92,000 Equity shares of Rs. 10 each fully paid up	1,92,000	
	3,000 10% Preference shares of Rs. 100 each fully paid up	3,00,000	22,20,000
	Reconciliation of share capital		
	Opening no. of shares	2,40,000	
	Buy back of shares during the year	48,000	1,92,000
	During the year the company has buy back of 48,000 shares		



2	<b>Reserves and Surplus</b>		
	Capital reserve	10,00,000	
	Capital redemption reserve	1,80,000	
	Securities Premium 27,00,000		
	Less: Premium payable on buy back of shares 24,00,000	3,00,000	
	Revenue reserve 25,00,000		
	Less: Transfer to Capital redemption reserve 1,80,000	23,20,000	
	Profit and loss A/c 35,00,000		
	Less: Loss on investment 5,00,000	30,00,000	68,00,000

### Question 11

Pay Limited provides you with the following information as at 31st March, 2022:

	(₹ in Lakhs)	
<b>Share Capital:</b>		<b>300</b>
Authorized		
Issued:		
11% Redeemable preference shares of ₹ 100 each fully paid	125	
Equity shares of ₹ 10 each fully paid	175	300
<b>Reserves and surplus:</b>		
Capital reserve	35	
Securities premium	105	
Revenue reserves	460	
Profit and loss account	50	650
Current liabilities and provisions		50
Fixed assets: cost	100	
Less: Accumulated depreciation	(90)	10
Non-current investments at cost (Market value ₹ 400 Lakhs)		200
Current assets		790

1) The company redeemed preference shares at a premium of 4% on 1st April, 2022.

2) It also bought back 2.5 lakhs equity shares of ₹ 10 each at ₹ 40 per share. The payments for the above were made out of the bank balances, which appeared as a part of current assets.

You are asked to:

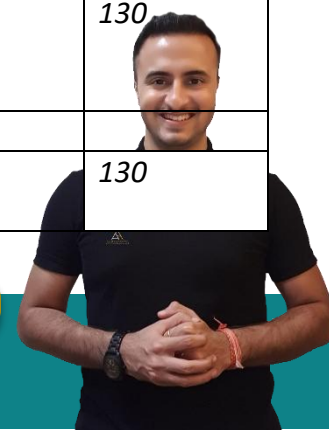
- Pass journal entries to record the above.
- Prepare balance sheet as at 01.04.2022.

(RTP May '23)

### Answer 11

Journal entries in the books of Pay Ltd.

		₹ in lakhs	
	Particulars	Debit	Credit
1st	11% Preference share capital A/c	Dr. 125	
April, 2022	Premium payable on Redemption of Preference Shares	Dr. 5	
	To Preference shareholders A/c (Being preference share capital account transferred to shareholders account)		130
	Preference shareholders A/c	Dr. 130	
	To Bank A/c (Being payment made to shareholders)		130





	Shares buy back A/c	Dr.	100	
	To Bank A/c			100
	(Being 2.5 lakhs equity shares bought back @ ₹ 40 per share)			
	Equity shares capital A/c (2.5 lakh x ₹ 10)	Dr.	25	
	Premium payable on buy- back A/c (2.5 lakh x ₹ 30)	Dr.	75	
	To Shares buy back A/c (Being cancellation of shares bought back)			100
	Revenue reserve A/c	Dr.	150	
	To Capital Redemption Reserve A/c (125 + 25)			150
	(Being creation of capital redemption reserve to the extent of the face value of preference shares redeemed and equity shares bought back)			
	Securities Premium	Dr.	80	
	To Premium payable on Redemption of Pref. Shares			5
	To Premium payable on buy- back A/c			75
	(Being premium on preference shares redeemed* and equity shares bought back charged to securities premium account)			

\*Securities premium utilized for premium on preference shares redeemed assuming that the company is not governed under section 133 of the Companies Act. Alternatively, it may not be utilized assuming otherwise.

(i) Balance Sheet of Pay Ltd as at 1.4.2022

Particulars	Note No	₹ In lakhs
<b>I. Equity and Liabilities</b>		
(1) Shareholder's Funds		
(a) Share Capital	1	150
(b) Reserves and Surplus	2	570
(2) Current Liabilities		50
<b>Total</b>		<b>770</b>
<b>II. Assets</b>		
(1) Non-current assets		
(a) Property, plant and Equipment	3	10
(b) Non-current investments – Investment at cost Market value ₹ 400 crores)		200
(2) Current assets	4	560
<b>Total</b>		<b>770</b>

Notes to Accounts

			₹ In lakhs
1.	Share Capital		
	Authorized, Issued and Subscribed:		
	Equity shares of ₹ 10 each		150
2.	Reserves and Surplus		
	Capital reserve	35	
	Capital redemption reserve	150	



	Securities premium	105		
	Less: Utilization for buy back and redemption of shares	(80)	25	
	Revenue Reserve	460		
	Less: transfer to Capital redemption reserve	(150)	310	
	Profit and Loss Account balance		50	570
3.	Property, plant and equipment			
	Cost		100	
	Less: Provision for depreciation		(90)	10
4.	Current assets			
	Current assets as on 31.3.2022		790	
	Less: Bank payment for redemption and buy back		(230)	560

### Question 12

The Directors of Umang Ltd. passed a resolution to buyback 5,00,000 of its fully paid equity shares of ₹ 10 each at ₹ 15 per share. This buyback is in compliance with the provisions of the Companies Act, 2013. For this purpose, the company

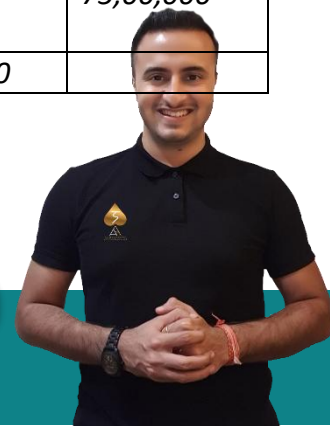
- (i) Sold its investments of ₹ 30,00,000 for ₹ 25,00,000.
- (ii) Issued 20,000, 12% preference shares of ₹ 100 each at par, the entire amount being payable with application.
- (iii) Used ₹ 15,00,000 of its Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal 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. (PYP 5 Marks Jan 21)

### Answer 12

Journal Entries in the books of Umang Ltd.

		Dr. ₹	Cr. ₹
1.	Bank A/c	Dr.	25,00,000
	Profit and Loss A/c	Dr.	5,00,000
	To Investment A/c (Being investment sold for the purpose of buy-back of Equity Shares)		30,00,000
2.	Bank A/c	Dr.	20,00,000
	To 12% Pref. Share capital A/c (Being 12% Pref. Shares issued for ₹ 20,00,000)		20,00,000
3.	Equity share capital A/c	Dr.	50,00,000
	Premium payable on buy-back	Dr.	25,00,000
	To Equity shares buy-back A/c Equity shareholders A/c (Being the amount due on buy-back of equity shares)		75,00,000
4.	Equity shares buy-back A/c/ Equity shareholders A/c	Dr.	75,00,000





	To Bank A/c (Being payment made for buy-back of equity shares)			75,00,000
5.	Securities Premium A/c General	Dr.	15,00,000	
	Reserve A/c	Dr.	10,00,000	
	To Premium payable on buy-back (Being premium payable on buy-back charged from Securities premium)			25,00,000
6.	General Reserve A/c	Dr.	30,00,000	
	To Capital Redemption Reserve A/c (Being creation of capital redemption reserve to the extent of the equity shares bought back after deducting fresh pref. shares issued)			30,00,000

### Question 13

X Ltd. furnishes the following summarized Balance Sheet as at 31-03-2018

Liabilities	(in ₹)	(in ₹)
<b>Share Capital</b>		
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
<b>Reserves &amp; Surplus</b>		
Capital Reserve	1,00,000	
Security Premium	12,00,000	
Revenue Reserve	5,00,000	
Profit and Loss	20,00,000	
Dividend Equalization Fund	5,50,000	43,50,000
<b>Non-Current Liabilities</b>		
12% Debenture		12,50,000
<b>Current Liabilities and Provisions</b>		5,50,000
<b>Total</b>		<b>1,21,50,000</b>
<b>Assets</b>		
<b>Fixed Assets</b>		
Tangible Assets		1,00,75,000
<b>Current Assets</b>		
Investment	3,00,000	
Inventory	2,00,000	
Cash and Bank	15,75,000	20,75,000
<b>Total</b>		<b>1,21,50,000</b>

The shareholders adopted the resolution on the date of the above-mentioned Balance Sheet to:

- 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 Rs. 30 per share.
- To finance the buy back of share company :
  - Issue 3000, 14 % debenture of 100 each at a premium of 20%
  - Issue 2500, 10 % preference share of Rs. 100 each
- Sell investment worth Rs. 1,00,000 for Rs. 1,50,000.
- Maintain a balance of Rs. 2,00,000 in Revenue Reserve.
- Later the company issue three fully paid up equity share of Rs. 20 each by way of bonus share for every 15 equity share held by the equity shareholder.





You are required to pass the necessary journal entries to record the above transactions and prepare Balance Sheet after buy back. (PYP 15 Marks, Nov'19, RTP Nov'21)

**Answer 13**

**In the books of X Limited Journal Entries**

	Particulars		Dr.	Cr.
			₹	₹
1.	Bank A/c	Dr.	3,60,000	
	To 14 % Debenture A/c			3,00,000
	To Securities Premium A/c			60,000
	(Being 14 % debentures issued to finance buy back)			
2.	Bank A/c	Dr.	2,50,000	
	To 10% preference share capital A/c			2,50,000
	(Being 10% preference share issued to finance buy back)			
3.	Bank A/c	Dr.	1,50,000	
	To Investment A/c			1,00,000
	To Profit on sale of investment			50,000
	(Being investment sold on profit)			
4.	Equity share capital A/c (62,500 x ₹20)	Dr.	12,50,000	
	Securities premium A/c(62,500 x ₹16)	Dr.	10,00,000	
	To Equity shares buy back A/c (62,500 x ₹36)			22,50,000
	(Being the amount due to equity shareholders on buy back)			
5.	Equity shares buy back A/c	Dr.	22,50,000	
	To Bank A/c			22,50,000
	(Being the payment made on account of buy back of 62,500 Equity Shares as per the Companies Act)			
6.	Revenue reserve	Dr.	3,00,000	
	Securities premium	Dr.	2,60,000	
	Profit and Loss A/c	Dr.	4,40,000	
	To Capital redemption reserve A/c*			10,00,000
	(Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law) [12,50,000 less 2,50,000]			
7.	Capital redemption reserve A/c	Dr.	7,50,000	
	To Bonus shares A/c (W.N.1)			7,50,000
	(Being the utilization of capital redemption reserve to issue 37,500 bonus shares)			
8.	Bonus shares A/c	Dr.	7,50,000	
	To Equity share capital A/c			7,50,000
	(Being issue of 3 bonus equity share for every 15 equity shares held)			



\*Alternatively, entry for combination of different amounts (from Revenue reserve, Securities premium and profit and Loss account.) may be passed for transferring the required amount to CRR.

**Note:**

It may be noted that as per the provisions of the Companies Act, no buy-back of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities. Issue of debentures has been excluded for the purpose of "specified securities" and the entire amount of Rs. 10,00,000 (after deducting only pref. share capital) has been credited to CRR while solving the question.

**Balance Sheet (After buy back and issue of bonus shares)**

Particulars	Note No	Amount ₹
<b>I. Equity and Liabilities</b>		
(1) Shareholder's Funds		
(a) Share Capital	1	57,50,000
(b) Reserves and Surplus	2	27,10,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	15,50,000
(3) Current Liabilities		
(a) Trade payables		-
(b) current liabilities & Provisions		5,50,000
<b>Total</b>		<b>1,05,60,000</b>
<b>II. Assets</b>		
(1) Non-current assets		
(a) Property, Plant and Equipment		1,00,75,000
(2) Current assets		
(a) Investments		2,00,000
(b) Inventory		2,00,000
(c) Cash and cash equivalents (W.N. 2)		85,000
<b>Total</b>		<b>1,05,60,000</b>

**Notes to Accounts**

	10% preference shares @ ₹ 100 each (10,00,000 + 2,50,000)		12,50,000	57,50,000
2.	Reserves and Surplus			
	Capital Reserve		1,00,000	
	Revenue reserve		2,00,000	
	Securities premium	12,00,000		
	Add: Premium on debenture	60,000		
	Less: Adjustment for premium paid on buy back	(10,00,000)		
	Less: Transfer to CRR	(2,60,000)	Nil	
	Capital Redemption Reserve			
	Transfer due to buy-back of shares from P&L		10,00,000	



	Less: utilization for issue of bonus shares	(7,50,000)	2,50,000	
	Profit & Loss A/c	20,00,000		
	Add: Profit on sale of investment	50,000		
	Less: Transfer to CRR	(4,40,000)	16,10,000	
	Dividend equalization reserve	(5,50,000)	5,50,000	27,10,000
	Long-term borrowings – 12% Debentures 12,50,000			
	– 14% Debentures	3,00,000		15,50,000

### Working Notes:

- Amount of bonus shares =  $[(2,50,000 - 25\%)3/15] \times 20 = 37,500 \times 20 = 7,50,000$
- Cash at bank after issue of bonus shares

	Rs.
Cash balance as on 30.3.2018	15,75,000
Add: Issue of debenture	3,60,000
Add: issue of preference shares	2,50,000
Add: Sale of investments	1,50,000
	23,35,000
Less: Payment for buy back of shares	(22,50,000)
	85,000

### Question 14

Mohan Ltd. furnishes the following summarized Balance Sheet on 31st March 2021. (₹ in Lakhs)

	Amount
<b>Equity and Liabilities:</b>	
<b>Shareholders' fund</b>	
<b>Share Capital</b>	
Equity Shares of ₹ 10 each fully paid up	780
6% Redeemable Preference shares of ₹ 50 each fully Paid up	240
<b>Reserves and Surplus</b>	
Capital Reserves	58
General Reserve	625
Securities Premium	52
Profit & Loss	148

Revaluation Reserve	34
Infrastructure Development Reserve	16
<b>Non-current liabilities</b>	
7% Debentures	268
Unsecured Loans	36
<b>Current Liabilities</b>	395
	2652





<b>Assets:</b>	
<b>Non-current Assets</b>	
Plant and Equipment less depreciation	725
Investment at cost	720
<b>Current Assets</b>	<b>1207</b>
	<b>2652</b>

**Other Information:**

- (1) The company redeemed preference shares at a premium of 10% on 1st April, 2021.
- (2) It also offered to buy back the maximum permissible number of equity shares of ₹ 10 each at ₹ 30 per share on 2nd April 2021.
- (3) The payment for the above was made out of available bank balance, which appeared as a part of the current assets.
- (4) The company had investment in own debentures costing ₹ 60 lakhs (face value ₹ 75 lakhs). These debentures were cancelled on 2nd April 2021.
- (5) On 4th April 2021 company issued one fully paid-up equity share of ₹ 10 each by way of bonus for every five equity shares held by the shareholders.

You are required to:

- (a) Calculate maximum possible number of equity shares that can be bought back as per the Companies Act, 2013 and
- (b) Record the Journal Entries for the above-mentioned information. (PYP 10 Marks Dec'21)

**Answer 14**

- (a) (i) Statement determining the maximum number of shares to be bought back

Number of shares (in lakhs)

Particulars	When loan fund is ₹ 304 lakhs'
Shares Outstanding Test (W.N.1)	19.5
Resources Test (W.N.2)	11.175
Debt Equity Ratio Test (W.N.3)	29.725
Maximum number of shares that can be bought back [least of the above]	11.175

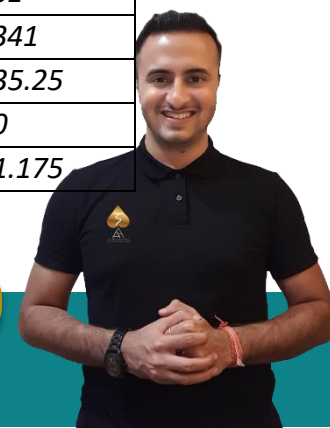
Thus, the company can buy 11,17,500 Equity shares at ₹ 30 each.

**Working Notes:****1. Shares Outstanding Test**

Particulars	(Shares in lakh)
Number of shares outstanding	78
25% of the shares outstanding	19.5

**2. Resources Test**

Particulars	
Paid up capital (₹ in lakh)	780
Free reserves (₹ in lakh) (625+52+148-24-240*)	561
Shareholders' funds (₹ in lakh)	1341
25% of Shareholders fund (₹ in lakh)	335.25
Buy-back price per share	30
Number of shares that can be bought back	11.175





\*Amount transferred to CRR is excluded from free reserves. Premium on redemption also reduced.

### 3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy-Back

	Particulars	₹ In lakh
(a)	Loan funds (₹)	304
(b)	Minimum equity to be maintained after buy- back in the ratio of 2:1 (₹) (a/2)	152
(c)	Present equity shareholders fund (₹)	1341
(d)	Future equity shareholders fund (₹) (see W.N.4)	1043.75 (1341-297.25)
(e)	Maximum permitted buy-back of Equity (₹) [(d) - (b)]	891.75
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share	29.725
	As per the provisions of the Companies Act, 2013, company	Qualifies

### 4. Alternatively, when current liabilities are considered as part of loan funds, in that case Debt Equity Ratio Test will be done as follows:

	Particulars	₹ in lakh
(a)	Loan funds (₹)	699
(b)	Minimum equity to be maintained after buy- back in the ratio of 2:1 (₹) (a/2)	349.5
(c)	Present equity shareholders fund (₹)	1341
(d)	Future equity shareholders fund (₹) (see W.N.4)	1093.125 (1341-247.875)
(e)	Maximum permitted buy-back of Equity (₹) [(d) - (b)]	743.625
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share	24.7875
	As per the provisions of the Companies Act, 2013, company	Qualifies

### 5. Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method

Suppose amount transferred to CRR account is 'x' and maximum permitted buy- back of equity is 'y'  
Then **Equation 1:** (Present Equity- Transfer to CRR) - Minimum Equity to be maintained = Maximum Permitted Buy-Back

$$= (1341 - x) - 152 = y$$

$$= 1189 - x = y$$

(1)

**Equation 2:** Maximum Permitted Buy-Back x Nominal Value Per Share/Offer Price Per Share  $y/30 \times 10 = x$  or  $3x = y$

(2)

by solving the above two equations we get  $x = ₹ 297.25$  and  $y = ₹ 891.75$

### Alternatively, when current liabilities are considered as part of loan funds, in that case

**Equation 1:** (Present Equity- Transfer to CRR)- Minimum Equity to be maintained = Maximum Permitted Buy-Back

$$= (1341 - x) - 349.5 = y$$

$$= 991.5 - x = y$$

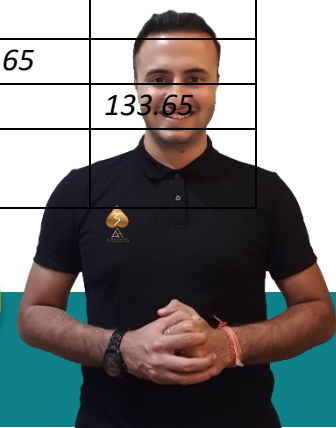
(1)



**Equation 2:** Maximum Permitted Buy-Back X Nominal Value Per Share/Offer Price Per Share  $y/30 \times 10 = x$  or  $3x = y$  (2)  
 by solving the above two equations we get  $x = 247.875$  and  $y = 743.625$

**Journal Entries for Buy Back (₹ in lakhs)**

Date	Particulars		Debit	Credit
2021 1st April	6% Redeemable preference share capital A/c	Dr.	240	
	Premium on redemption of preference shares A/c	Dr.	24	
	To Preference shareholders A/c			264
	(Being preference share capital transferred to shareholders account)			
	Preference shareholders A/c	Dr.	264	
	To Bank A/c			264
	(Being payment made to shareholders)			
	General Reserve or P&L A/c*	Dr.	24	
	To Premium on redemption of preference shares A/c			24
	(Being premium on redemption of preference shares adjusted through securities premium)			
2nd April	Equity shares buy-back A/c	Dr.	335.25	
	To Bank A/c			335.25
	(Being 11.175 lakhs equity shares of ₹ 10 each bought back @ ₹ 30 per share)			
	Equity shares capital A/c	Dr.	111.75	
	Securities Premium A/c	Dr.	52	
	General Reserve or P&L A/c	Dr.	171.50	
	To Equity Shares buy-back A/c			335.25
(Being cancellation of shares bought back)				
	General reserve A/c	Dr.	351.75	
	To Capital redemption reserve A/c			351.75
	(Being creation of capital redemption reserve account to the extent of the face value of preference shares redeemed and equity shares bought back as per the law ie. 240+ 111.75 lakhs)			
2nd April	7% Debentures A/c	Dr.	75	
	To Investment (own debentures) A/c			60
	To Profit on cancellation of own debentures A/c			15
	(Being cancellation of own debentures costing ₹ 60 lakhs, face value being ₹ 75 lakhs and the balance being profit on cancellation of debentures)			
4th April	Capital Redemption Reserve	Dr.	133.65	
	To Bonus Shares A/c			133.65
	(Being issue of one bonus equity share for every five equity shares held)			





	Bonus shares A/c	Dr.	133.65	
	To Equity share capital A/c			133.65
	(Being bonus shares issued)			

Working Note: Bonus Share to be issued =  $66.825 (78 - 11.175)$  lakh shares divided by 5 = 13.365 lakh shares.

**Note:**

\*Securities premium has not been utilized for the purpose of premium payable on redemption of preference shares assuming that the company referred in the question is governed by Section 133 of the Companies Act, 2013 and complies with the Accounting Standards prescribed for them. Alternative entry considering otherwise is also possible by utilizing securities premium amount

**Question 15**

Quick Ltd. has the following capital structure as on 31st March, 2021:

		₹ in Crores	
(1)	<b>Share Capital:</b>		462
	(Equity Shares of ₹ 10 each, fully paid)		
(2)	<b>Reserves and Surplus:</b>		
	General Reserve	336	
	Securities Premium Account	126	
	Profit and Loss Account	126	
	Statutory Reserve	180	
	Capital Redemption Reserve	87	
	Plant Revaluation Reserve	33	888
(3)	<b>Loan Funds:</b>		
	Secured	2,200	
	Unsecured	320	2,520

On the recommendations of the Board of Directors, on 16th September, 2021, the shareholders of the company have approved a proposal to buy-back of equity shares. The prevailing market value of the company's share is ₹ 20 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 50% over market value. The company had sufficient balance in its bank account for the buy-back of shares.

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 ₹1,680 Crores or ₹ 2,100 Crores.

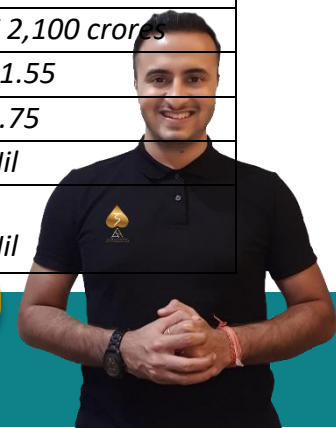
Assuming that the entire buy-back is completed by 31st December, 2021, Pass the necessary accounting entries (narrations not required) in the books of the company in each situation

(PYP 10 Marks May'22)

**Answer 15**

Statement determining the maximum number of shares to be bought back

Particulars	When loan fund is		
	₹ 2,520 crores	₹ 1,680 crores	₹ 2,100 crores
Shares Outstanding Test (W.N.1)	11.55	11.55	11.55
Resources Test (W.N.2)	8.75	8.75	8.75
Debt Equity Ratio Test (W.N.3)	Nil	5.25	Nil
Maximum number of shares that can be bought back [least of the above]	Nil	5.25	Nil



**Journal Entries for the Buy-Back (applicable only when loan fund is ₹ 1,680 crores)**

	Particulars		Debit	Credit
(a)	Equity share buy-back account	Dr.	157.5	
	To Bank account			157.5
(b)	Equity share capital account (5.25 x ₹ 10)	Dr.	52.5	
	Securities premium account (5.25 x ₹ 20)	Dr.	105	
	To Equity share buy-back account			157.5
(c)	General reserve account	Dr.	52.5	
	To Capital redemption reserve account			52.5

**Working Notes:****1. Shares Outstanding Test**

Particulars	(Shares in crores)
Number of shares outstanding	46.2
25% of the shares outstanding	11.55

**2. Resources Test**

Particulars	
Paid up capital (₹ in crores)	462
Free reserves (₹ in crores) (336+126+126)	588
Shareholders' funds (₹ in crores)	1,050
25% of Shareholders fund (₹ in crores)	₹ 262.5 crores
Buy-back price per share	₹ 30
Number of shares that can be bought back (shares in crores)	8.75 crores shares

**a. Debt Equity Ratio Test**

Particulars	When loan fund is		
	₹ 2,520 crores	₹ 1,680 crores	₹ 2,100 crores
(a) Loan funds (₹ in crores)	2,520	1,680	2,100
(b) Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹ in crores)	1,260	840	1,050
(c) Present equity shareholders fund (₹ in crores)	1,050	1,050	1,050
(d) Future equity shareholder fund (₹ in crores) (See Note 2)	N.A.	997.5 (1,050-52.5)	N.A.
(e) Maximum permitted buy-back of Equity (₹ in crores) [(d) - (b)] (See Note 2)	Nil	157.5 (by simultaneous equation)	Nil
(f) Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores) (See Note 2)	Nil	5.25 (by simultaneous equation)	Nil

**Note:**

- Under Situations 1 & 3 the company does not qualify for buy-back of shares as per the provisions of the Companies Act, 2013.
- As per section 68 of the Companies Act, 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserve after such buy-back.



Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

Suppose amount equivalent to nominal value of bought back shares transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

Then

Equation 1: (Present equity – Nominal value of buy-back transfer to CRR) – Minimum equity to be maintained = Maximum permissible buy-back of equity

$$(1,050 - x) - 840 = y$$

$$\text{Since } 210 - x = y$$

$$\text{Equation 2} = \left[ \frac{\text{Maximum buy-back}}{\text{Offer price for buy-back}} \times \text{Nominal Value} \right]$$

= Nominal value of the shares bought back to be transferred to CRR

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

$$\text{Or } 3x = y \quad (2)$$

by solving the above two equations we get

$$x = ₹ 52.5 \text{ crores } \quad y = ₹ 157.5 \text{ crores}$$

1. Statutory reserves, capital redemption reserve and plant revaluation reserves are not free reserves.
2. For calculation of debt – equity ratio both secured and unsecured loans have been considered.

### Question 16

The following information from Balance Sheet of Z Ltd. as on 31st March, 2023:

	₹ Lakhs
<b>Share Capital:</b>	
Equity shares of ₹ 10 each Fully Paid Up	16,000
10% Redeemable Pref. Shares of ₹ 10 each Fully Paid Up	5,000
<b>Reserves &amp; Surplus</b>	
Capital Redemption Reserve	2,000
Securities Premium	1,600
General Reserve	12,000
Profit & Loss Account	600
<b>Secured Loans:</b>	
9% Debentures	10,000
<b>Current Liabilities:</b>	
Trade payables	4,600
Sundry Provisions	2,000
<b>Fixed Assets</b>	<b>28,000</b>
Investments	4,700
Cash at Bank	4,600
Other Current Assets	16,500

On 1st April, 2023 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 10% of its Equity Shares at ₹ 20 per Share. In order to make cash available, the Company sold all the Investments for ₹ 5,000 lakhs.

You are required to pass journal entries for the above and prepare the Company's Balance sheet immediately after buyback of equity shares and redemption of preference shares.

(Nov '23)



**Answer 16**
**i. Journal Entries in the books of Z Ltd. (₹ in lakhs)**

	Particulars			
1	Bank A/c To Investments A/c To Profit and Loss A/c (Being investment sold on profit for the purpose of buy-back)	Dr.	5,000	4,700 300
2	10% Redeemable Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being redemption of preference share capital at premium of 10%)	Dr. Dr.	5,000 500	5,500
3	Profit and Loss A/c To Premium on Redemption of Preference Shares A/c (Being premium on redemption of preference shares adjusted through securities premium)	Dr.	500	500
4	Equity Share Capital A/c Premium on buyback To Equity buy-back A/c (Being Equity Share bought back, Share Capital cancelled, and Premium on Buyback accounted for)	Dr. Dr.	1,600 1,600	3,200
5	Securities Premium A/c (1,600) To Premium on Buyback A/c (Being premium on buyback provided out of securities premium)	Dr.	1,600	1,600
6	Preference Shareholders A/c Equity buy-back A/c To Bank A/c (Being payment made to preference shareholders and equity shareholders)	Dr. Dr.	5,500 3,200	8,700
7	General Reserve Account To Capital Redemption Reserve Account (Being amount transferred to capital redemption reserve account towards face value of preference shares redeemed and equity shares bought back)	Dr.	6,600	6,600

**ii. Balance Sheet of C Ltd. (after Redemption and Buyback)**

(₹ Lakhs)

	Particulars	Note No	Amount
	<b>EQUITY AND LIABILITIES</b>		₹
(1)	Shareholders' Funds:		
	(a) Share Capital	1	14,400
	(b) Reserves and Surplus	2	14,400
(2)	Non-Current Liabilities:		
	(a) Long Term Borrowings	3	10,000
(3)	Current Liabilities:		
	(a) Trade payables		4,600
	(b) Short Term Provisions		2,000
	<b>Total</b>		<b>45,400</b>





(II)	ASSETS		
(1)	Non-Current Assets		
	PPE		28,000
	Current Assets:		
	(a) Cash and Cash equivalents (W N)		900
	(b) Other Current Assets		16,500
			45,400

### Notes to Accounts

		₹ in Lakhs		
1.	Share Capital			
	1,440 lakh Equity Shares of ₹ 10 each Fully Paid up (160 lakh Equity Shares bought back)			14,400
2.	Reserves and Surplus			
	General Reserve	12,000		
	Less: Transfer to CRR	(6,600)	5,400	
	Capital Redemption Reserve	2,000		
	Add: Transfer due to buy-back of shares from Gen. res.	6,600		
			8,600	
	Securities premium	1,600		
	Less: Adjustment for premium paid on buy back	(1,600)		
	Profit & Loss A/c	600		
	Add: Profit on sale of investment	300		
	Less: Adjustment for premium paid on redemption of preference shares	(500)	400	14,400
3.	Long-term borrowings			
	Secured			
	9 % Debentures			10,000

### Working Note:

#### Bank Account

	Amount		Amount
	(₹ Lakhs)		(₹ Lakhs)
To balance b/d	4,600	By Preference Shareholders A/c	5,500
To Investment A/c (sale Proceeds)	5,000	By Equity buy back A/c	3,200
		By Balance c/d (Balancing figure)	900
	9,600		9,600

