

SUGGESTED SOLUTION

Statement determining the maximum number of shares to be bought back

Number of shares **(1 Mark for this below working)**

Particulars	When loan fund is		
	Rs. 2,520 crores	Rs. 1,680 crores	Rs. 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 Rs. 1,680 crores)****Rs. in crores**

	Particulars		Debit	Credit	Marks
(a)	Equity share buy-back account	Dr.	157.5		0.5 Marks
	To Bank account			157.5	
(b)	Equity share capital account (5.25 x Rs. 10)	Dr.	52.5		1 Mark
	Securities premium account (5.25 x Rs. 20)	Dr.	105		
	To Equity share buy-back account			157.5	
(c)	General reserve account	Dr.	52.5		0.5 Marks
	To Capital redemption reserve account			52.5	

Working Notes:**1. Shares Outstanding Test (1 Mark)**

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

2. Resources Test (1.5 Marks)

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

- 3. Debt Equity Ratio Test:** the ratio of debt owed by the company should not be more than twice the capital and its free reserve after such a buy-back.

	Particulars	When loan fund is		
		Rs. 2,520 crores (0.5 Mark)	Rs. 1,680 crores (2 Marks)	Rs. 2,100 crores (0.5 Mark)
(a)	Loan funds (Rs. in crores)	2,520	1,680	2,100
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (Rs. in crores)	1,260	840	1,050
(c)	Present equity Shareholders fund (Rs. in crores)	1,050	1,050	1,050
(d)	Future equity shareholder fund (Rs. in crores) (See Note 2)	N.A.	997.5 (1,050-52.5)	N.A.
(e)	Maximum permitted buy-back of Equity (Rs. in crores) [(d) – (b)] (See Note 2)	Nil	157.5 (By simultaneous equation)	Nil
(f)	Maximum number of shares that can be bought back @ Rs. 30 per share (shares in crores) (See Note 2)	Nil	5.25 (By simultaneous equation)	Nil
	As per the provisions of the Companies Act, 2013, company	Does not Qualify	Qualifies	Does not Qualify

Note:

1. (1 Mark)

Suppose No. of Shares to be bought back is 'x' and if face value of each share is 10/- then:

- Face Value of Buyback shares is 10x
- CRR to be Created due to buyback equal to face value is 10x
- Premium on Buyback is 20x (30/- buyback price less Face Value 10/-)
- Therefore, total impact of Buyback on Current Equity would be 40x

Situation 2: Loan Funds are Rs. 1,680

Present Equity	1,050
(-) Impact of Buyback on Equity	(40X)
Minimum Equity to be Maintained	840
Value of x i.e. No. of Max. Buyback	5.25 Crore

- Statutory reserves, capital redemption reserve and plant revaluation reserves are not free reserves. (0.25 Marks)
- For calculation of debt -equity ratio both secured and unsecured loans have been considered (0.25 Marks)