

BUYBACK OF SECURITIES**INDEX**

S.NO.	TOPIC	PG.NO.	No. Of. Eg/Qns
	SECTION A – CLASS PRACTICE QUESTIONS		
	Questions of Study Material, RTPs, MTPs and Past Exams to be Practiced in the Class		
1.	Series 100 – Basic Level Questions on Buyback	4.2	2
2.	Series 200 – Questions on Buyback, Redemption & Bonus	4.3	7
3.	Series 300 – Buyback as per Maximum Limit	4.17	3
	SECTION B – HOMEWORK QUESTIONS		
	Questions of Study Material, RTPs, MTPs and Past Exams to be Practiced at Home		
4.	Series 100 – Basic Level Questions on Buyback	4.25	1
5.	Series 200 – Questions on Buyback, Redemption & Bonus	4.26	5
6.	Series 300 – Buyback as per Maximum Limit	4.37	2
	SECTION C – CASE SCENERIO MCQs		
7.	Case Scenario 1	4.42	1
8.	Case Scenario 2	4.43	1

SECTION A – QUESTIONS

(Questions of Study Material, RTPs, MTPs and Past Exams
to be Practiced in the Class)

SERIES 100**BASIC LEVEL QUESTIONS ON BUYBACK****Q.BB.RMP.101: (EXAM Jan'21)**

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

For this purpose, the company

- Sold its investments of Rs. 30,00,000 for Rs. 25,00,000.
- Issued 20,000, 12% preference shares of Rs. 100 each at par, the entire amount being payable with application.
- Used Rs. 15,00,000 of its Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back.
- The company has necessary cash balance for the payment to shareholders.

You are required to pass necessary Journal Entries (including narration) regarding Buy-back of shares in the books of Umang Ltd.

SOLUTION**Journal Entries in the books of Umang Ltd.**

			Dr. Rs.	Cr. Rs.
1.	Bank A/c Profit and Loss A/c To Investment A/c (Being investment sold for the purpose of buy-back of Equity Shares)	Dr. Dr.	25,00,000 5,00,000	30,00,000
2.	Bank A/c To 12% Pref. Share capital A/c (Being 12% Pref. Shares issued for Rs. 20,00,000)	Dr.	20,00,000	20,00,000
3.	Equity share capital A/c Premium payable on buy-back To Equity shares buy-back A/c/ Equity shareholders A/c (Being the amount due on buy-back of equity shares)	Dr. Dr.	50,00,000 25,00,000	75,00,000
4.	Equity shares buy-back A/c/ Equity shareholders A/c To Bank A/c (Being payment made for buy-back of equity shares)	Dr.	75,00,000	75,00,000
5.	Securities Premium A/c General Reserve A/c To Premium payable on buy-back (Being premium payable on buy-back charged from Securities premium)	Dr. Dr.	15,00,000 10,00,000	25,00,000
6.	General Reserve A/c 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)	Dr.	30,00,000	30,00,000

Q.BB.OM.102:

Jayesh Ltd. provides you the following information:



- Issued capital:** 2,50,000 equity shares of 10/- each
2,000, 10% Preference shares of 100/- each
(Issued two months back for the purpose of buy-back)

- Reserves and Surplus:** Capital Reserve – 10,00,000/-
Securities Premium- 22,00,000/-
Revenue Reserve – 30,00,000/-
Profit & Loss A/c – 40,00,000/-

- Resolution passed to buy back** 20% of its equity capital @ 50/- per share.

Required: Pass journal entries to record the above transactions.

Solution

1)	Equity Share Capital A/c Premium on Buyback A/c To Equity Share Buyback A/c	Dr. Dr.	5,00,000 20,00,000	25,00,000
2)	Equity Shares Buyback A/c To Bank A/c	Dr.	25,00,000	25,00,000
3)	Security Premium A/c To Premium on Buyback A/c	Dr.	20,00,000	20,00,000
4)	Security Premium A/c Revenue Reserve A/c To CRR A/c	Dr. Dr.	2,00,000 1,00,000	3,00,000

(*Alternatively, instead of 2,00,000 SP A/c we can use whole Revenue Reserve for Creating CRR of 3,00,000)

SERIES 200**QUESTIONS ON BUYBACK, REDEMPTION & BONUS****Q.BB.SM.201:**

M Ltd. furnishes the following Balance Sheet as at 31st March, 20X1:

	Particulars	Notes	₹ (in 000)
	Equity and Liabilities		
1	Shareholders' funds		
A	Share capital	1	5,000
B	Reserves and Surplus	2	6,310
2	Non-current liabilities		
	Long term borrowings	3	400
3	Current liabilities		
A	Trade Payables		40
	Total		11,750
	Assets		
1	Non-current assets		
A	Property, plant and Equipment	4	2,750
B	Non-Current Investments (at cost)		5,000
2	Current assets		
A	Inventories		1,000
B	Trade receivables		2,000
C	Cash and Cash equivalents		1,000
	Total		11,750

Notes to accounts:

No.	Particulars	₹ in ('000)
1	Share Capital	
	Authorized, Issued and Subscribed Capital:	
	3,00,000 Equity shares of ₹ 10 each fully paid up	3,000
	20,000 9% Preference Shares of 100 each	2,000
	Total	5,000
2	Reserves and Surplus	
	Capital reserve	10
	Revenue reserve	4,000
	Securities premium	500
	Profit and Loss account	1,800
	Total	6,310
3	Long term borrowings	
	10% Debentures	400
4	Property, Plant and Equipment (PPE)	
	PPE: Cost	3,000
	Less: Provision for depreciation	(250)
	Net carrying value	2,750

The company passed a resolution to buy-back 20% of its equity capital @ ₹ 15 per share. For this purpose, it sold its investments of ₹30 lakhs for ₹ 25 lakhs.

You are required to pass necessary Journal entries & Prepare revised Balance Sheet.

SOLUTION**Journal Entries in the books of M Ltd.**

₹ in '000

	Particulars	Dr.	Cr.
1.	Bank A/c	Dr.	2,500
	Profit and Loss A/c	Dr.	500
	To Investment A/c		3,000
	(Being investment sold for the purpose of buy-back of Equity Shares)		
2.	Equity share capital A/c	Dr.	600
	Premium payable on buy-back	Dr.	300
	To Equity shares buy-back A/c		900
	(Being the amount due on buy-back of equity shares)		
3.	Equity shares buy-back A/c	Dr.	900
	To Bank A/c		900
	(Being payment made for buy-back of equity shares)		
4.	Securities Premium A/c	Dr.	300
	To Premium payable on buy-back		300
	(Being premium payable on buy-back charged from Securities premium)		
5.	Revenue reserve A/c	Dr.	600
	To Capital Redemption Reserve A/c		600
	(Being creation of capital redemption reserve to the extent of the equity shares bought back)		

Q.BB.RMP.202: (EXAM Nov'22)

PG Limited furnishes the following Balance Sheet as at 31st March,2022:

	Particulars	Notes	₹ (in Lakhs)
1.	Equity and Liabilities		
	Shareholders' funds		
	(a) Share Capital	1	12,000
	(b) Reserves and Surplus	2	8,100
2	Current liabilities		
	(a) Trade Payables		7,450
	(b) Other Current Liabilities		1,950
	Total		29,500
	Assets		
1	Non-current asset		
	(a) Property, Plant and Equipment		12,760
	(b) Non-current Investments		740
2	Current asset		
	(a) Inventories		6,000
	(b) Trade receivable		2,600
	(c) Cash and cash equivalents		7,400
	Total		29,500

Notes to accounts:

	Particulars	₹ (in Lakhs)
1	Share Capital	12,000
	Authorized, issued and subscribed capital	
	Equity share capital (fully paid up shares of ₹ 10 each)	
2	Reserves and Surplus	
	Securities premium General	1,750
	General reserve	2,650
	Capital redemption reserve	2,000
	Profit and Loss account	1,700
	Total	8,100

On 1st April, 2022, the company announced the buy-back of 25% of its Equity Shares @ ₹ 15 per share. For this purpose, it sold all of its investments for ₹ 750 lakhs.

On 5th April, 2022, the company achieved the target of buy-back. You are required to pass necessary journal entries for the above transactions.

SOLUTION

In the books of PG Limited
Journal Entries

Date	Particulars	Dr.	Cr.
2022			(₹ in lakhs)
April 1	Bank A/c Dr.	750	
	To Investment A/c		740
	To P&L A/c (Profit on sale of investment)		10
	(Being investment sold on profit)		
April 5	Equity share capital A/c Dr.	3,000	
	Premium payable on buy-back A/c Dr.	1,500	
	To Equity shares buy-back A/c		4,500
	(Being the amount due to equity shareholders on buy-back)		

	Securities Premium A/c	Dr.	1,500	
	To Premium payable on buy-back A/c			1,500
	(Being the amount of premium charged from securities premium account)			
	Equity shares buy-back A/c	Dr.	4,500	
	To Bank A/c			4,500
	(Being the payment made on account of buy-back of 30 Lakh Equity Shares)			
April 5	Profit and Loss A/c	Dr.	1,700	
	General reserve A/c	Dr.	1,300	
	To Capital redemption reserve A/c			3,000
	(Being amount equal to nominal value of buy-back shares from free reserves transferred to capital redemption reserve account as per the law)			

Note:

1. In the last entry given in the solution, it is possible to adjust transfer to Capital Redemption Reserve Account from different combinations of amounts from Securities Premium, General Reserve and Profit and Loss Account to the extent available.
2. Calculation of amount of Buy Back of Share: ₹12,000/10 X 25% X ₹ 15 = ₹ 4,500 Lakhs

Q.BB.RMP.203: (RTP May'20 & RTP Nov'23) (Buyback & Redemption)

The following was the Balance Sheet of C Ltd. as on 31st March ,2019:

Equity & Liabilities	Rs Lakhs	Assets	Rs Lakhs
Share Capital:		Fixed Assets	14,000
Equity shares of Rs 10 each Fully Paid Up	8,000	Investments	2,350
10% Redeemable Pref. Shares of Rs 10 each Fully Paid Up	2,500	Cash at Bank	2,300
Reserves & Surplus		Other Current Assets	8,250
Capital Redemption Reserve	1,000		
Securities Premium	800		
General Reserve	6,000		
Profit & Loss Account	300		
Secured Loans:			
9% Debentures	5,000		
Current Liabilities:			
Trade payables	2,300		
Sundry Provisions	1,000		
	26,900		26,900

On 1st April, 2019 the Company **redeemed all its Preference Shares** at a Premium of 10% and bought back 10% of its Equity Shares at Rs 20 per Share. In order to make cash available, the Company sold all the Investments for Rs 2,500 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.

SOLUTION:**Journal Entries in the books of C Ltd.****(Rs in lakhs)**

	Particulars			
1	Bank A/c	Dr.	2,500	
	To Investments A/c			2,350

	To Profit and Loss A/c (Being investment sold on profit for the purpose of buy- back)			150
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.	2,500 250	2,750
3	Securities Premium A/c To Premium on Redemption of Preference Shares A/c (Being premium on redemption of preference shares adjusted through securities premium)	Dr.	250	250
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.	800 800	1,600
5	Securities Premium A/c (800-250) General Reserve A/c To Premium on Buyback A/c (Being premium on buyback provided first out of securities premium and the balance out of general reserves.)	Dr. Dr.	550 250	800
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.	2,750 1,600	4,350
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.	3,300	3,300

Balance Sheet of C Ltd. (after Redemption and Buyback) (Rs Lakhs)

	Particulars	Note No	Amount (Rs.)
(I)	EQUITY AND LIABILITIES		
(1)	Shareholders' Funds:		
	(a) Share Capital	1	7,200
	(b) Reserves and Surplus	2	7,200
(2)	Non-Current Liabilities:		
	(a) Long Term Borrowings	3	5,000
(3)	Current Liabilities:		
	(a) Trade payables		2,300
	(b) Short Term Provisions		<u>1,000</u>
	Total		<u>22,700</u>
(II)	ASSETS		
(1)	Non-Current Assets		
	PPE		14,000
(2)	Current Assets:		
	(a) Cash and Cash equivalents (W N)		450
	(b) Other Current Assets		<u>8,250</u>
			<u>22,700</u>

Notes to Accounts

		Rs in Lakhs		
1. Share Capital				
	720 lakh Equity Shares of Rs 10 each Fully Paid up (80 lakh Equity Shares bought back)			7,200
2. Reserves and Surplus				
	General Reserve	6,000		
	Less: Adjustment for premium paid on buy back	(250)		
	Less: Transfer to CRR	<u>(3,300)</u>	2,450	
	Capital Redemption Reserve	1,000		
	Add: Transfer due to buy-back of shares from Gen. res.	<u>3,300</u>	4,300	
	Securities premium	800		
	Less: Adjustment for premium paid on redemption of preference shares	(250)		
	Less: Adjustment for premium paid on buy back	<u>(550)</u>		
	Profit & Loss A/c	300		
	Add: Profit on sale of investment	<u>150</u>	<u>450</u>	7,200
3. Long-term borrowings				
	Secured			
	9 % Debentures			5,000

Working Note:

Bank Account

Receipts	Amount	Payments	Amount
	(Rs Lakhs)		(Rs Lakhs)
To balance b/d	2,300	By Preference Shareholders A/c	2,750
To Investment A/c (sale Proceeds)	2,500	By Equity Shareholders A/c	1,600
		By Balance c/d (Balancing figure)	<u>450</u>
	<u>4,800</u>		<u>4,800</u>

Q.BB.RMP.204: (MTP Oct'20) (Buyback & Redemption)

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

Equity & liability	Rs. (In lakhs)	Assets	Rs. (In lakhs)
Authorised Capital:		Property, plant and equipment	1,12,000
Equity shares of Rs. 10 each	<u>80,000</u>	Investments	24,000
Issued Capital		Cash at Bank	13,200
Equity Shares of Rs.10 each Fully Paid up	64,000	Trade Receivables	66,000
10% Redeemable Preference Shares of 10 each, Fully Paid Up	20,000		
Reserves & Surplus:			
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 Rs.20 per Share. In order to make Cash available, the Company sold all the Investments for Rs.25,000 Lakhs and raised a Bank Loan amounting to Rs.16,000 lakh on the Security of the Company's Plant.

Give the necessary Journal Entries considering that the buyback is authorized 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.

SOLUTION:

Journal entries In the books of Bhoomi Ltd.

			Dr.	Cr.
			Rs. in lakhs	
1	Bank A/c	Dr.	25,000	
	To Investments A/c			24,000
	To Profit and Loss A/c			1,000
	(Being Investments sold and, profit being credited to Profit and Loss Account)			
2	10% Redeemable Preference Share Capital A/c	Dr.	20,000	
	Premium payable on Redemption of Preference Shares A/c	Dr.	2,000	
	To Preference Shareholders A/c			22,000
	(Being amount payable on redemption of Preference shares, at a Premium of 10%)			
3	Securities Premium A/c	Dr.	2,000	
	To Premium payable on Redemption of Preference Shares A/c			2,000
	(Being Securities Premium utilised to provide Premium on Redemption of Preference Shares)			
4	Equity Share Capital A/c	Dr.	16,000	
	Premium payable on Buyback A/c	Dr.	16,000	
	To Equity Share buy back A/c			32,000
	(Being the amount due on buy-back)			
5	Securities Premium A/c (6,400 – 2,000)	Dr.	4,400	
	General Reserve A/c (balancing figure)	Dr.	11,600	
	To Premium payable on Buyback A/c			16,000
	(Being premium on buyback provided first out of Securities Premium and the balance out of General Reserves.)			
6	Bank A/c	Dr.	16,000	
	To Bank Loan A/c			16,000
	(Being Loan taken from Bank to finance Buyback)			
7	Preference Shareholders A/c	Dr.	22,000	
	Equity Shares buy back A/c	Dr.	32,000	
	To Bank A/c			54,000
8	(Being payment made to Preference Shareholders and Equity Shareholders)			

General Reserve Account	Dr.	36,000	
To Capital Redemption Reserve Account			36,000
(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)			

Q.BB.RMP.205: (RTP May'24 and May'21) (Buyback and Bonus)

Mukti Ltd. (a non-listed company) provide the following information as on 31.3.2020:

	(Rs.)
Land and Building	21,50,000
Plant & Machinery	15,00,000
Non- current Investment	2,00,000
Trade Receivables	5,50,000
Inventories	1,80,000
Cash and Cash Equivalents	40,000
Share capital: 1,00,000 Equity Shares of Rs. 10 each fully paid up	10,00,000
Securities Premium	3,00,000
General Reserve	2,50,000
Profit & Loss Account (Surplus)	1,50,000
10% Debentures (Secured by floating charge on all assets)	20,00,000
Unsecured Loans	8,00,000
Trade Payables	1,20,000

On 21st April, 2020 the Company announced the buyback of 15,000 of its equity shares @ Rs. 15 per share. For this purpose, it sold all its investment for Rs. 2.50 lakhs. On 25th April, 2020, the company achieved the target of buy back.

On 1st May, 2020 the company issued one fully paid-up share of Rs. 10 each by way of **bonus** for every eight equity shares held by the equity shareholders.

You are required to pass necessary Journal Entries for the above transactions.

SOLUTION:

In the books of Vriddhi Infra Ltd.
Journal Entries

Date	Particulars	Dr.	Cr.
April 21	Bank Account Dr. To Investment Account To Profit and Loss Account (Being investment sold on profit)	2,50,000	2,00,000 50,000
April 25	Equity Share capital account Dr. Securities premium A/c Dr. To Equity shares buy back Account (Being the amount due to equity shareholders on buy back)	1,50,000 75,000	2,25,000
	Equity shares buy back A/c Dr. To bank A/c (Being the payment made on account of buyback of 15,000 Equity Shares)	2,25,000	2,25,000
	General reserve A/c Dr. To Capital redemption reserve A/c (Being amount equal to nominal value of bought back shares from free reserves transferred to capital redemption reserve account as per the law)	1,50,000	1,50,000
May 1	Capital redemption reserve A/c Dr. To Bonus shares A/c (W.N.1)	1,06,250	1,06,250

	(Being the utilization of capital redemption reserve to issue bonus shares)		
	Bonus shares A/c To Equity share capital A/c (Being issue of one bonus equity share for every ten equity shares held)	Dr. 1,06,250	1,06,250

Working Note:

$$\text{Amount of bonus shares} = \{(1,00,000 - 15,000) \times 1/8\} \times 10$$

$$= \text{Rs. } 1,06,250$$

Q.BB.RMP.206: (EXAM Nov'19, RTP Nov'21) (Buyback & Bonus)

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

Liabilities	(in Rs)	(in Rs)
Share Capital		
Equity Share Capital of Rs 20 each fully paid up	50,00,000	
10,000, 10% Preference Shares of Rs 100 each fully paid up	<u>10,00,000</u>	60,00,000
Reserves & Surplus		
Capital Reserve	1,00,000	
Security Premium	12,00,000	
Revenue Reserve	5,00,000	
Profit and Loss	20,00,000	
Dividend Equalization Fund	<u>5,50,000</u>	43,50,000
Non-Current Liabilities		
12% Debenture		12,50,000
Current Liabilities and Provisions		<u>5,50,000</u>
Total		<u>1,21,50,000</u>
Assets		
Fixed Assets		
Tangible Assets		1,00,75,000
Current Assets		
Investment	3,00,000	
Inventory	2,00,000	
Cash and Bank	<u>15,75,000</u>	<u>20,75,000</u>
Total		<u>1,21,50,000</u>

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

- (1) 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.
- (2) To finance the buy-back of shares, company:
 - (a) Issues 3000, 14% debentures of Rs 100 each at a premium of 20%.
 - (b) Issues 2500, 10% preference shares of Rs 100 each.
- (3) Sell investment worth Rs 1,00,000 for Rs 1,50,000.
- (4) Maintain a balance of Rs 2,00,000 in Revenue Reserve.
- (5) 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 shareholders.

You are required to pass the necessary journal entries to record the above transactions and prepare Balance Sheet after buy back.

SOLUTION:

In the books of X Limited
Journal Entries

	Particulars	Dr. Rs	Cr. Rs
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 (Being investment sold on profit)		50,000
4.	Equity share capital A/c (62,500 x Rs 20) Dr.	12,50,000	
	Securities premium A/c (62,500 x Rs 16) Dr.	10,00,000	
	To Equity shares buy back A/c (62,500 x Rs36)		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 buyback 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 Rs
I. Equity and Liabilities		
(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
Total		1,05,60,000
II. Assets		
(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
Total		1,05,60,000

Notes to Accounts

			Rs
1.	Share Capital		
	Equity share capital (Fully paid-up shares of Rs 20 each)		
	(2,50,000-62,500+37,500 shares)	45,00,000	
	10% preference shares @ Rs 100 each (10,00,000 + 2,50,000)	<u>12,50,000</u>	
2.	Reserves and Surplus		
	Capital Reserve	1,00,000	57,50,000
	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	<u>(2,60,000)</u>	Nil
	Capital Redemption Reserve		
	Transfer due to buy-back of shares from P&L 10,00,000		
	Less: Utilisation for issue of bonus shares <u>(7,50,000)</u>	2,50,000	
	Profit & Loss A/c	20,00,000	
	Add: Profit on sale of investment	50,000	
	Less: Transfer to CRR	<u>(4,40,000)</u>	16,10,000
	Dividend equalization reserve	<u>(5,50,000)</u>	<u>5,50,000</u>
	Long-term borrowings - 12% Debentures 12,50,000		27,10,000
	- 14% Debentures	<u>3,00,000</u>	
			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	<u>1,50,000</u>
	23,35,000
Less: Payment for buy back of shares	<u>(22,50,000)</u>
	<u>85,000</u>

Q.BB.SM.207: (Buyback, Redemption, ESOP, Investment in Own Debentures)

Extra Ltd. (a non-listed company) furnishes you with the following Balance Sheet as of 31st March, 20X1:

(in lakhs ₹)			
	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
A	Share capital	1	120
B	Reserves and Surplus	2	118
2	Non-current liabilities		
	Long term borrowings	3	4
3	Current liabilities		
A	Trade Payables		70
	Total		312
	Assets		
1	Non-current assets		
A	Property, plant and Equipment		50
B	Non-current Investments		120
2	Current assets		
A	Cash and Cash equivalents		142
	Total		312

Notes to accounts

No.	Particulars	₹
1	Share Capital	
	Authorized, issued and subscribed capital:	
	Equity shares of ₹ 10 each fully paid	100
	9% Redeemable preference shares of ₹ 100 each fully paid	20
	Total	120
2	Reserves and Surplus	
	Capital reserves	8
	Revenue reserves	50
	Securities premium	60
	Total	118
3	Long term borrowings	
	10% Debentures	4

- The company **redeemed the preference shares** at a premium of 10% on 1st April, 20X1.
- It also bought back 3 lakhs equity shares of ₹ 10 each at ₹ 30 per share. The payment for the above was made out of huge bank balances.
- Included in its investment were "**investments in own debentures**" costing ₹ 2 lakhs (face value ₹ 2.20 lakhs). These debentures were cancelled on 1st April, 20X1.
- The company had 1,00,000 **equity stock options outstanding** on the above- mentioned date, to the employees at ₹ 20 when the market price was ₹30 (This was included under

current liabilities). On 1.04.20X1 employees exercised their options for 50,000 shares.

- (i) Pass the journal entries to record the above.
- (ii) Prepare Balance Sheet as at 01.04.20X1.

SOLUTION

(₹ in lakhs)

Date	Particulars		Debit	Credit
20X1 1st April	9% Redeemable preference share capital A/c	Dr.	20.00	
	Premium on redemption of preference shares A/c	Dr.	2.00	
	To Preference shareholders A/c			22.00
	(Being preference share capital transferred to shareholders account)			
	Preference shareholders A/c	Dr.	22.00	
	To Bank A/c			22.00
	(Being payment made to shareholders)			
	Equity shares buy-back A/c	Dr.	90.00	
	To Bank A/c			90.00
	(Being 3 lakhs equity shares of ₹ 10 each bought back @ ₹ 30 per share)			
	Equity share capital A/c	Dr.	30.00	
	Securities premium A/c	Dr.	60.00	
	To Equity Shares buy-back A/c			90.00
	(Being cancellation of shares bought back)			
	Revenue reserve A/c	Dr.	50.00	
	To Capital redemption reserve A/c			50.00
	(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)			
	10% Debentures A/c	Dr.	2.20	
	To Investment (own debentures) A/c			2.00
	To Profit on cancellation of own debentures A/c			0.20
	(Being cancellation of own debentures costing ₹ 2 lakhs, face value being ₹ 2.20 lakhs and the balance being profit on cancellation of debentures)			
	Bank A/c	Dr.	10.00	
	Employees stock option outstanding (Current liabilities) A/c	Dr.	5.00	
	To Equity share capital A/c			5.00
	To Securities premium A/c			10.00
	(Being the allotment to employees, of 50,000 shares of ₹ 10 each at a premium of 20 per share in exercise of stock options by employees)			
	Securities premium A/c	Dr.	2.00	
	To Premium on redemption of preference shares A/c			2.00
	(Being premium on redemption of preference shares adjusted through securities premium)			

Balance Sheet of Extra Ltd. as at 01.04.20X1

(in lakhs ₹)

Particulars		Notes	₹
1	Equity and Liabilities		
	Shareholders' funds		
	A Share capital	1	75.00
	B Reserves and Surplus	2	66.20
2	Non-current liabilities		
	Long term borrowings	3	1.80
3	Current liabilities		
	A Other Current Liabilities	4	65.00
	Total		208
	Assets		
1	Non-current assets		
	A Property, plant and Equipment		50.00
	B Non-current Investments	5	118.00
2	Current assets		
	A Cash and Cash equivalents	6	40.00
	Total		208

Notes to accounts

No.	Particulars		₹
1	Share Capital		
	Equity shares of ₹ 10 each fully paid		100
	Less: Cancellation of bought back shares		(30)
	Add: Shares issued against ESOP		5
	Total		75
2	Reserves and Surplus		
	Capital Reserve		
	Opening balance	8.00	
	Add: Profit on cancellation of debentures	0.20	8.20
	Revenue reserves		
	Opening balance	50.00	
	Less: Creation of Capital Redemption Reserve	(50.00)	-
	Securities Premium		
	Opening balance	60.00	
	Less: Adjustment for cancellation of equity shares	(60.00)	
	Less: Adjustment for premium on redemption of preference shares	(2.00)	
	Add: Shares issued against ESOP at premium	10.00	8.00
	Capital Redemption Reserve		50.00
	Total		66.20
3	Long term borrowings		
	10% Debentures		4.00
	Less: Cancellation of own debentures		(2.20)
	Total		1.80
4.	Other Current liabilities		
	Opening balance		70.00
	Less: Adjustment for ESOP outstanding		(5.00)
	Total		65.00
5.	Non-current investments		
	Opening balance		120.00
	Less: Investment in own debentures		(2.00)

	Total		118.00
6.	Cash and Cash Equivalents		
	Opening balance		142.00
	Less: Payment to preference shareholders		(22.00)
	Less: Payment to equity shareholders		(90.00)
	Add: Share price received against ESOP		10.00
	Total		40.00

SERIES 300
BUYBACK AS PER MAXIMUM LIMIT

Q.BB.SM.301: (Also in MTP – March18, August18, March19 & April19)

SMM Ltd. has the following capital structure as on 31st March, 20X1: ₹ in crore

	Particulars	Situation I	Situation II
(i)	Equity share capital (shares of ₹ 10 each)	1,200	1,200
(ii)	Reserves:		
	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 ₹ 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.

SOLUTION

Statement determining the maximum number of shares to be bought back

Number of shares (in crores)

Particulars	When loan fund is	
	₹ 3,200 crores	₹ 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 ₹3,200 crores)

₹ in crores			
	Particulars	Debit	Credit
(a)	Equity shares buy-back account Dr. To Bank account (Being payment for buy-back of 24 crores equity shares of ₹ 10 each @ ₹ 30 per share)	720	720
(b)	Equity share capital account Dr. Premium Payable on buy-back account Dr. To Equity share buy-back account (Being cancellation of shares bought back)	240 480	720

(c)	Securities Premium account Dr. 400	480
	General Reserve / Profit & Loss A/c Dr. 80	
	To Premium Payable on buy-back account (Being Premium Payable on buy-back account charged to securities premium and general reserve/Profit & Loss A/c)	
(c)	General Reserve / Profit & Loss A/c Dr. 240	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)	

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	
Paid up capital (₹ in crores)	1,200
Free reserves (₹ in crores) (1,080 + 400 + 200)	1,680
Shareholders' funds (₹ in crores)	2,880
25% of Shareholders fund (₹ in crores)	₹ 720 crores
Buy-back price per share	₹ 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	
		₹ 3,200 crores	₹ 6,000 crores
(a)	Loan funds (₹)	3,200	6,000
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹) (a/2)	1,600	3,000
(c)	Present equity shareholders fund (₹)	2,880	2,880
(d)	Future equity shareholders fund (₹) (see W.N.4)	2,560 (2,880-320)	N.A.
(e)	Maximum permitted buy- back of Equity (₹) [(d) - (b)]	960	Nil
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share	32 crore shares	Nil
	As per the provisions of the Companies Act, 2013, company	Qualifies	Does not Qualify

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 1:

Present Equity – Impact of Buyback on Equity = Minimum Equity to be maintained
 $2880 - 40x = 1600$

$X = 32$ Crore Numbers of Buyback Shares

Situation 2:

Since the present equity is less than minimum equity to be maintained, the company is not permitted to buy back any shares.

Q.BB.RMP.302: (EXAM May'23)

VIJ Ltd. has the following Capital Structure as on 31st March, 2022:

particulars	(₹ in Lakhs)
Equity Share Capital (Shares of ₹ 10 each, fully Paid)	990
Reserves & Surplus:	
General Reserve	720
Securities Premium Account	270
Profit & Loss Account	270
Infrastructure development Reserve	540
Loan Funds	5,400

On the recommendation of the Board of Directors, the shareholders of the company have approved on 2nd September, 2022 a proposal to buy-back the maximum permissible number of equity shares, considering the sufficient funds available at the disposal of the company.

The current market value of the company's shares is ₹ 25 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 20% over market rate.

You are also informed that the Infrastructure Development Reserve is created to satisfy income tax requirements.

You are required to compute the maximum permissible number of equity shares that can be brought back in the light of the above information and **also under a situation where the loan funds of the company were either ₹ 3,600 lakh or ₹ 4,500 lakh.**

The entire buy-back is completed by 09/12/2022, show the accounting entries with full narration in the company's books in each situation.

Solution:

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

Particulars	When loan fund is		
	₹ 5,400 lakhs	₹ 3,600 lakhs	₹ 4,500 lakhs
Shares Outstanding Test (W.N.1)	24.75	24.75	24.75
Resources Test (W.N.2)	18.75	18.75	18.75
Debt Equity Ratio Test (W.N.3)	Nil	11.25	Nil
Maximum number of shares that can be bought back [least of the above]	Nil	11.25	Nil

Journal Entries for the Buy-Back
(applicable only when loan fund is ₹ 3,600 lakhs)

₹ in lakhs

	Particulars		Debit	Credit
(a)	Equity share capital account	Dr.	112.50	
	To Equity share buy- back account	Dr.	225.00	
	(Being cancellation of shares bought back)			337.5
(b)	Equity share buy-back account	Dr.	337.50	
	To Bank account			337.5
	(Being buy-back of 11.25 lakhs equity shares of ₹10 each @ ₹30 per share)			

(c)	General reserve account 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 through free reserves)	Dr.	112.50	112.50
-----	---	-----	--------	--------

Notes:

1. In place of entry (a), Alternative set of entries can be given as follows:

₹ in lakhs

Equity share capital A/c	Dr.	112.50	
Premium payable on buy-back	Dr.	225.00	
To Equity shares buy-back A/c (Being the amount due on buy-back of equity shares)			337.50
Securities Premium A/c	Dr.		
To Premium payable on buy-back (Being premium payable on buy-back charged from Securities premium)		225.00	225.00

2. In place of entry (c), Alternative set of entries can be given as follows:

₹ in lakhs

Securities Premium A/c	Dr.	45.00	
General Reserve A/c	Dr.	67.50	
To Capital redemption reserve A/c (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out through free reserves)			112.50

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

Particulars	(Shares in lakhs)
Number of shares outstanding	99
25% of the shares outstanding	24.75

2. Resource Test

Particulars	
Paid up capital (₹ in lakhs)	990
Free reserves (₹ in lakhs) (720+270+270)	<u>1260</u>
Shareholders' funds (₹ in lakhs)	<u>2250</u>
25% of Shareholders fund (₹ in lakhs)	₹562.5 lakhs
Buy-back price per share	₹ 30
Number of shares that can be bought back (shares in lakhs)	18.75 lakhs shares

3. Debt Equity Ratio Test

Particulars	When loan fund is		
	₹ 5,400 lakhs	₹ 3,600 lakhs	₹ 4,500 lakhs

(a)	Loan funds (₹ in lakhs)	5,400	3,600	4,500
(b)	Minimum equity to be maintained after buyback in the ratio of 2:1 (₹ in lakhs)	2,700	1,800	2,250
(c)	Present equity shareholders fund (₹ in lakhs)	2,250	2,250	2,250
(d)	Future equity shareholder fund (₹ in lakhs)	N.A	2137.5 (2,250-112.5)	N.A.
(e)	Maximum permitted buy-back of Equity (₹ in lakhs) [(d) - (b)] ¹	Nil	337.5 (by simultaneous equation)	Nil
(f)	Maximum number of shares that can be bought back @ ₹30 per share (shares in lakhs) (See Working Note)	Nil	11.25 (by simultaneous equation)	Nil

Under Situations 1 & 3 the company does not qualify for buy-back of shares as per the provisions of the Companies Act, 2013.

Working Note:

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:

Present Equity – Impact of Buyback on Equity = Minimum Equity to be maintained

$$2250 - 40x = 1800$$

X = 11.25 lakhs Numbers of Buyback Shares

Q.BB.SM.303:

Following is the Balance Sheet of Competent Limited as at 31st March, 20X1:

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
	A Share capital	1	12,50,000
	B Reserves and Surplus	2	18,75,000
2	Non-current liabilities		
	Long term borrowings	3	28,75,000
3	Current liabilities		
	A Other Current Liabilities		16,50,000
	Total		76,50,000
	Assets		
1	Non-current assets		
	A Property, plant and Equipment	4	46,50,000
2	Current assets		



A	Other Current Assets	30,00,000
	Total	76,50,000

Notes to accounts

No.	Particulars	₹
1	Share Capital	
	Authorized, issued and subscribed capital:	
	Equity share capital (fully paid up shares of ₹ 10 each)	12,50,000
2	Reserves and Surplus	
	Securities premium	2,50,000
	Profit and loss account	1,25,000
	Revenue reserve	15,00,000
	Total	18,75,000
3	Long term borrowings	
	14% Debentures	18,75,000
	Unsecured Loans	10,00,000
	Total	28,75,000
4	Property, plant and equipment	
	Land and Building	19,30,000
	Plant and machinery	18,00,000
	Furniture and fitting	9,20,000
	Net carrying value	46,50,000

The company wants to buy-back 25,000 equity shares of ₹ 10 each, on 1st April, 20X1 at ₹ 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 payment for buy-back of shares will be made by the company out of sufficient bank balance available shown as part of Current Assets.

Comment with your calculations, whether buy-back of shares by company is within the provisions of the Companies Act, 2013. If yes, pass necessary journal entries towards buy-back of shares and prepare the Balance Sheet after buy-back of shares.

SOLUTION

Determination of Buy-back of maximum no. of shares as per the Companies Act, 2013

1. Shares Outstanding Test

Particulars	(Shares)
Number of shares outstanding	1,25,000
25% of the shares outstanding	31,250

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

Particulars	
Paid up capital (₹)	12,50,000
Free reserves (₹) (15,00,000 + 2,50,000 + 1,25,000)	18,75,000
Shareholders' funds (₹)	31,25,000
25% of Shareholders fund (₹)	7,81,250
Buy-back price per share	₹ 20
Number of shares that can be bought back (shares)	39,062
Actual Number of shares for buy-back	25,000

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

	Particulars	₹
(a)	Loan funds (₹) (18,75,000 + 10,00,000)	28,75,000
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹) (a/2)	14,37,500
(c)	Present equity/shareholders fund (₹)	31,25,000
(d)	Buyback Effect (Consider X as maximum no of buyback shares)	30X
(e)	Present Equity - Buyback Effect = Equity After Buyback $31,25,000 - 30X = 14,37,500$	
(f)	X = Maximum number of shares that can be bought back @ ₹ 20 per share	56,250 shares
(g)	Actual Buy-Back Proposed	25,000 Shares

*As per Section 68 (2) (d) of the Companies Act 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserves after such buy-back. Further under Section 69 (1), on buy-back of shares out of free reserves a sum equal to the nominal value of the share bought back shall be transferred to Capital Redemption Reserve (CRR). As per section 69 (2) utilization of CRR is restricted to fully paying up unissued shares of the Company which are to be issued as fully paid-up bonus shares only. It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve. Therefore, for calculation of future equity i.e. share capital and free reserves, amount transferred to CRR on buy-back has to be excluded from the present equity.

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

Particulars	Number of shares
Shares Outstanding Test	31,250
Resources Test	39,062
Debt Equity Ratio Test	56,250
Maximum number of shares that can be bought back [least of the above]	31,250

Company qualifies all tests for buy-back of shares and came to the conclusion that it can buy maximum 28,750 shares on 1st April, 20X1.

However, company wants to buy-back only 25,000 equity shares @ ₹ 20. Therefore, buy-back of 25,000 shares, as desired by the company is within the provisions of the Companies Act, 2013.

Journal Entries for buy-back of shares

	Particulars	Debit (₹)	Credit (₹)
(a)	Equity shares buy-back account	Dr. 5,00,000	
	To Bank account		5,00,000
	(Being buy-back of 25,000 equity shares of ₹ 10 each @ ₹ 20 per share)		
(b)	Equity share capital account	Dr. 2,50,000	
	Securities premium account	Dr. 2,50,000	
	To Equity shares buy-back account		5,00,000
	(Being cancellation of shares bought back)		
(c)	Revenue reserve account	Dr. 2,50,000	
	To Capital redemption reserve account		2,50,000
	(Being transfer of free reserves to capital)		

	redemption reserve to the extent of nominal value of capital bought back through free reserves)		
--	---	--	--

Balance Sheet of M/s. Competent Ltd. as at 31st March, 20X1

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
	A Share capital	1	10,00,000
	B Reserves and Surplus	2	16,25,000
2	Non-current liabilities		
	Long term borrowings	3	28,75,000
3	Current liabilities		
	A Other Current Liabilities		16,50,000
	Total		71,50,000
	Assets		
1	Non-current assets		
	A Property, plant and equipment	4	46,50,000
2	Current assets		
	A Other Current Assets (30,00,000 – 5,00,000)		25,00,000
	Total		71,50,000

Notes to accounts

No.	Particulars		₹
1	Share Capital		
	Authorized, issued and subscribed capital:		
	Equity share capital (fully paid up shares of ₹ 10 each)		10,00,000
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)	-
	Capital Redemption Reserves		2,50,000
	Total		16,25,000
3	Long term borrowings		
	14% Debentures		18,75,000
	Unsecured Loans		10,00,000
	Total		28,75,000
4	Property, plant and equipment		
	Land and Building		19,30,000
	Plant and machinery		18,00,000
	Furniture and fitting		9,20,000
	Net carrying value		46,50,000

SECTION B – HOMEWORK QUESTIONS**(Questions of Study Material, RTPs, MTPs and Past Exams to be Practiced at Home)****SERIES 100****BASIC LEVEL QUESTIONS ON BUYBACK****Q.BB.RMP.103: (RTP Nov'22 & RTP SEP'24)**

Purpose 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 the 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.

SOLUTION**Journal Entries in the books of Umesh Ltd.**

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

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

	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	30,00,000

SERIES 200

QUESTIONS ON BUYBACK & REDEMPTION

Q.BB.SM.208:

Dee Limited (a non-listed company) furnishes the following Balance Sheet as at 31st March, 20X1:



			(₹ in thousand)	
	Particulars	Notes	₹	
	Equity and Liabilities			
1	Shareholders' funds			
A	Share capital	1	2,700	
B	Reserves and Surplus	2	9,700	
2	Current liabilities			
A	Trade Payables		1,400	
	Total		13,800	
	Assets			
1	Non-current assets			
A	Property, plant and Equipment		9,300	
B	Non-Current Investments		3,000	
2	Current assets			
A	Inventories		500	
B	Trade receivables		200	
C	Cash and Cash equivalents		800	
	Total		13,800	

Notes to accounts

No.	Particulars	₹
1	Share Capital	
	Authorized, issued and subscribed capital:	
	2,50,000 Equity shares of ₹ 10 each fully paid up	2,500
	2,000, 10% Preference shares of ₹ 100 each (Issued two months back for the purpose of buy-	200

	back)	
	Total	2,700
2	Reserves and Surplus	
	Capital reserve	1,000
	Revenue reserve	3,000
	Securities premium	2,200
	Profit and loss account	3,500
	Total	9,700

The company passed a resolution to buy-back 20% of its equity capital @ ₹ 50 per share. For this purpose, it sold all of its investment for ₹ 22,00,000.

You are required to pass necessary journal entries and prepare the Balance Sheet.

SOLUTION

Journal Entries in the books of Dee Limited

(₹ in thousand)

	Particulars		Dr.	Cr.
(i)	Bank Account Profit and Loss Account To Investment Account (Being the investments sold at loss for the purpose of buy-back)	Dr. Dr.	2,200 800	3,000
(ii)	Equity Share buy-back Account To Bank Account (Being the payment made on buy-back)	Dr.	2,500	2,500
(iii)	Equity Share Capital Account Premium Payable on Buy-Back Account To Equity Shares Buy-Back Account (Being the buy-back amount allocated to equity share capital)	Dr. Dr.	500 2,000	2,500
(iv)	Securities premium Account To Premium payable on buy-back Account (Being the premium payable on buy-back adjusted against securities premium account)	Dr.	2,000	2,000
(v)	Revenue reserve Account To Capital Redemption Reserve Account (Being the amount equal to nominal value of equity shares bought back out of free reserves transferred to capital redemption reserve account)	Dr.	300	300

Balance Sheet of Dee Limited as at 1st April, 20X1 (After buy-back of shares)

(₹ in thousand)

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
A	Share capital	1	2,200
B	Reserves and Surplus	2	6,900
2	Current liabilities		
A	Trade Payables		1,400
	Total		10,500
	Assets		

1		Non-current assets		
	A	Property, plant and Equipment		9,300
2		Current assets		
	A	Inventories		500
	B	Trade receivables		200
	C	Cash and Cash equivalents		500
		Total		10,500

Notes to accounts

No.	Particulars		₹
1	Share Capital		
	Authorized, issued and subscribed capital:		
	2,50,000 Equity shares of ₹ 10 each fully paid up		2,000
	2,000, 10% Preference shares of ₹ 100 each (Issued two months back for the purpose of buy-back)		200
	Total		2,200
2	Reserves and Surplus		
	Capital reserve		1,000
	Capital redemption reserve		300
	Securities Premium	2,200	
	Less: Premium payable on buy-back of shares	(2,000)	200
	Revenue reserve	3,000	
	Less: Transfer to Capital redemption reserve	(300)	2,700
	Profit and loss A/c	3,500	
	Less: Loss on investment	(800)	2,700
	Total		6,900

Q.BB.RMP.209: (RTP May18, May'22 & MTP Oct'18)

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
Fixed Assets	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.

SOLUTION:

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

		Debit (Rs.)	Credit (Rs.)
(a)	Equity shares buy-back account Dr. To Bank account (Being buy back of 25,000 equity shares of Rs. 10 each @ Rs. 20 per share)	5,00,000	5,00,000
(b)	Equity shares capital account Dr. Securities premium account Dr. To Equity shares buy-back account (Being cancellation of shares bought back)	2,50,000 2,50,000	5,00,000
(c)	Revenue reserve account Dr. 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	2,50,000

Balance Sheet of Complicated Ltd.

as on 1st April, 2016

Particulars	Note No	Amount Rs.
EQUITY AND LIABILITIES		
1 Shareholders' funds		
a) Share capital	1	11,00,000
b) 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
Total		81,50,000
ASSETS		
1 Non-current assets		
a) Fixed assets		46,50,000
2 Current assets (40,00,000-5,00,000)		35,00,000
Total		81,50,000

Notes to Accounts

		Rs.	Rs.
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	
	Unsecured loans		10,00,000	28,75,000
4.	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

Q.BB.SM.210: (Buyback and Redemption)

Anu Ltd. (a non-listed company) furnishes you with the following balance sheet as at 31st March, 20X1:

(in crores ₹)

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
A	Share capital	1	100
2	Reserves and Surplus	2	300
A	Current liabilities		
B	Trade Payables		40
	Total		440
	Asset		
1	Non-current assets		
A	Property, plant and equipment	3	-
B	Non-Current Investments	4	100
2	Current assets		
A	Trade receivables		140
B	Cash and Cash equivalents		200
	Total		440

Notes to accounts

No.	Particulars	₹
1	Share Capital	
	Authorized, issued and subscribed share capital:	
	12% Redeemable preference shares of ₹ 100 each, fully paid up	75
	Equity shares of ₹ 10 each, fully paid up	25
	Total	100
2	Reserves and Surplus	
	Capital reserve	15
	Securities premium	25
	Revenue reserves	260
	Total	300
3	Property, Plant and Equipment	
	PPE Cost	100
	Less: Provision for depreciation	(100)
	Net carrying value	NIL

4	Non-Current Investments	
	Non-current investments at cost (Market value ₹ 400 Cr.)	100

The company redeemed preference shares on 1st April, 20X1. It also bought back 50 lakhs equity shares of ₹ 10 each at ₹ 50 per share. The payments for the above were made out of the huge 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 1.4.20X1.

SOLUTION

Journal entries in the books of Anu Ltd.

₹ in crores

	Particulars		Dr.	Cr.
1st April, 20X1	12% Preference share capital A/c	Dr.	75	
	To Preference shareholders A/c			75
	(Being preference share capital account transferred to shareholders account)			
	Preference shareholders A/c	Dr.	75	
	To Bank A/c			75
	(Being payment made to shareholders)			
	Shares buy-back A/c	Dr.	25	
	To Bank A/c			25
	(Being 50 lakhs equity shares bought back @ ₹ 50 per share)			
	Equity share capital A/c (50 lakhs x ₹ 10)	Dr.	5	
	Securities premium A/c (50 lakhs x ₹ 40)	Dr.	20	
	To Shares buy-back A/c			25
	(Being cancellation of shares bought back)			
	Revenue Reserve A/c	Dr.	80	
	To Capital Redemption Reserve A/c (75+5)			80
	(Being creation of capital redemption reserve to the extent of the face value of preference shares redeemed and equity shares bought back)			

Balance Sheet of Anu Ltd as at 1.4.20X1

(in crores ₹)

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
A	Share capital	1	20
B	Reserves and Surplus	2	280
2	Current liabilities		
A	Trade Payables		40
	Total		340
	Assets		
1	Non-current assets		
A	Property, plant and equipment	3	-
B	Non-Current Investments	4	100
2	Current assets		
A	Trade receivables		140

	B	Cash and Cash equivalents	5	100
		Total		340

Notes to accounts

No.	Particulars		₹
1	Share Capital		
	Authorized, issued and subscribed share capital		
	200 lakhs Equity shares of ₹ 10 each fully paid		20
	Total		20
2	Reserves and Surplus		
	Capital reserve		15
	Capital redemption reserve		80
	Securities premium	25	
	Less: Utilization for buy-back of shares	(20)	5
	Revenue Reserve	260	
	Less: transfer to Capital redemption reserve	(80)	180
	Total		280
3	Property, plant and Equipment		
	PPE: cost		100
	Less: Provision for depreciation		(100)
	Net carrying value		-
4	Non-Current Investments		
	Non-current investments at cost		100
	(Market value ₹ 400 Crores)		
5	Cash and Cash Equivalents		
	Cash and Cash Equivalents as on 31.3.20X1		200
	Less: Bank payment for redemption and buy-back		(100)
	Total		100

Q.BB.SM.211: (Buyback & Bonus)

KG Limited furnishes the following Balance Sheet as at 31st March, 20X1:



	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
A	Share capital	1	1,200
B	Reserves and Surplus	2	810
2	Non-current liabilities		
	Long term borrowings	3	750
3	Current liabilities		
A	Trade Payables		745
B	Other Current Liabilities		195
	Total		3,700
	Assets		
1	Non-current assets		
A	Property, plant and equipment	4	2,026
B	Non-current Investments		74
2	Current assets		
A	Inventories		600
B	Trade receivables		260
C	Cash and Cash equivalents		740
	Total		3,700

Notes to accounts

No.	Particulars	₹
1	Share Capital	
	Authorized, issued and subscribed capital	
	Equity share capital (fully paid up shares of ₹ 10 each)	1,200
2	Reserves and Surplus	
	Securities premium	175
	General reserve	265
	Capital redemption reserve	200
	Profit & loss A/c	170
	Total	810
3	Long term borrowings	
	12% Debentures	750
4	Property, plant and equipment	
	Land and Building	1,800
	Plant and machinery	226
	Net carrying value	2,026

On 1st April, 20X1, the company announced the buy-back of 25% of its equity shares @ ₹ 15 per share. For this purpose, it sold all of its investments for ₹ 75 lakhs.

On 5th April, 20X1, the company achieved the target of buy-back. On 30th April, 20X1 the company issued one fully paid-up equity share of ₹ 10 by way of bonus for every four equity shares held by the equity shareholders.

You are required to:

- (1) Pass necessary journal entries for the above transactions.
- (2) Prepare Balance Sheet of KG Limited after bonus issue of the shares.

SOLUTION**In the books of KG Limited Journal Entries**

Date	Particulars	Dr.	Cr.
20X1		(₹ in lakhs)	
April 1	Bank A/c Dr.	75	
	To Investment A/c		74
	To Profit on sale of investment		1
	(Being investment sold on profit)		
April 5	Equity share capital A/c Dr.	300	
	Securities premium A/c Dr.	150	
	To Equity shares buy-back A/c		450
	(Being the amount due to equity shareholders on buy-back)		
	Equity shares buy-back A/c Dr.	450	
	To Bank A/c		450
	(Being the payment made on account of buy-back of 30 Lakh Equity Shares)		
April 5	General reserve A/c Dr.	265	
	Profit and Loss A/c Dr.	35	
	To Capital redemption reserve A/c		300
	(Being amount equal to nominal value of buy-back shares from free reserves transferred to capital redemption reserve account as per the law)		
April 30	Capital redemption reserve A/c Dr.	225	

	To Bonus shares A/c (W.N.1) (Being the utilization of capital redemption reserve to issue bonus shares)		225
	Bonus shares A/c	Dr.	225
	To Equity share capital A/c		225
	(Being issue of one bonus equity share for every four equity shares held)		

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

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
A	Share capital	1	1,125
B	Reserves and Surplus	2	436
2	Non-current liabilities		
	Long term borrowings	3	750
3	Current liabilities		
A	Trade Payables		745
B	Other Current Liabilities		195
	Total		3,251
	Assets		
1	Non-current assets		
A	Property, plant and equipment	4	2,026
2	Current assets		
A	Inventories		600
B	Trade receivables		260
C	Cash and Cash equivalents		365
	Total		3,251

Notes to accounts

No.	Particulars		₹
1	Share Capital		
	Authorized, issued and subscribed capital:		
	Equity share capital (fully paid up shares of ₹ 10 each)		1,125
2	Reserves and Surplus		
	General Reserve	265	
	Less: Transfer to CR	(265)	-
	Capital Redemption Reserve	200	
	Add: Transfer due to buy-back of shares from P/L	35	
	Add; Transfer due to buy-back of shares from General Reserve	265	
	Less: Utilisation for issue of bonus shares	(225)	275
	Securities premium	175	
	Less: Adjustment for premium paid on buy-back	(150)	25
	Profit & Loss A/c	170	
	Add: Profit on sale of investment	1	
	Less: Transfer to CRR	(35)	136
	Total		436
3	Long term borrowings		
	12% Debentures		750
4	Property, Plant and Equipment		

	Land and Building		1,800
	Plant and machinery		226
	Net carrying value		2,026

Working Notes:

1. Amount of bonus shares = 25% of (1,200 – 300) lakhs = ₹ 225 lakhs
2. Cash at bank after issue of bonus shares

Particulars	₹ in lakhs
Cash balance as on 1st April, 20X1	740
Add: Sale of investments	75
	815
Less: Payment for buy-back of shares	(450)
	365

Note: In the given solution, it is possible to adjust transfer to capital redemption reserve account or capitalization of bonus shares from any other free reserves or securities premium (to the extent available) also.

Q.BB.RMP.212: (RTP Nov'21; MTP May'23) (Buyback & Bonus)

SM Limited gives the following information as on 31st March, 2020:



		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
		12,93,000
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
		12,93,000

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

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

SOLUTION

In the books of SM Limited Journal Entries

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

Bank Account

Particulars	Amt (Rs.)	Particulars	Amt (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.

SERIES 300
BUYBACK AS PER MAXIMUM LIMIT

Q.BB.RMP.304: (Exam July'21)

A company provides the following 2 possible Capital Structures as on 31st March, 2021:

Particulars	Situation 1 (Rs.)	Situation 2 (Rs.)
Equity Share Capital (Shares of Rs. 10 each, fully paid up)	30,00,000	30,00,000
Reserves & Surplus:		
General Reserve	12,00,000	12,00,000
Securities Premium	6,00,000	6,00,000
Profit & Loss	2,10,000	2,10,000
Statutory Reserve	4,20,000	4,20,000
Loan Funds	25,00,000	1,20,00,000

The company is planning to offer buy back of Equity Share at a 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 the situations as per Companies Act, 2013 and are also required to pass necessary Journal Entries in the situation where the buyback is possible.

SOLUTION

Statement determining the maximum number of shares to be bought back

Number of shares (in crores)

Particulars	When loan fund is	
	Rs. 25,00,000	Rs. 1,20,00,000
Shares Outstanding Test (W.N.1)	75,000	75,000
Resources Test (W.N.2)	41,750	41,750
Debt Equity Ratio Test (W.N.3)	94,000	Nil
Maximum number of shares that can be bought back [least of the above]	41,750	Nil

Journal Entries for the Buy-Back (applicable only when loan fund is Rs. 25,00,000)

Rs.			
	Particulars	Debit	Credit
(a)	Equity shares buy-back account	Dr.	12,52,500
	To Bank account		12,52,500
	(Being payment for buy-back of 41,750 equity shares of Rs. 10 each @ Rs. 30 per share)		
(b)	Equity share capital account	Dr.	4,17,500
	Premium Payable on buy-back account	Dr.	8,35,000
	To Equity shares buy-back account		12,52,500
	(Being cancellation of shares bought back)		

	Securities Premium account General Reserve / Profit & Loss A/c To Premium Payable on buy-back account (Being Premium Payable on buy-back account charged to securities premium and general reserve/Profit & Loss A/c)	Dr. Dr.	6,00,000 2,35,000	8,35,000
(c)	General Reserve* 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)	Dr.	4,17,500	4,17,500

*Profit and Loss account balance amounting Rs. 2,10,000 may also be used and General Reserve may be debited for the balance amount.

Working Notes:

1. Shares Outstanding Test

Particulars	(Shares in crores)
Number of shares outstanding	3,00,000
25% of the shares outstanding	75,000

2. Resources Test

Particulars	
Paid up capital (Rs.)	30,00,000
Free reserves (Rs.) (12,00,000+6,00,000+2,10,000)	<u>20,10,000</u>
Shareholders' funds (Rs.)	<u>50,10,000</u>
25% of Shareholders fund (Rs.)	Rs. 12,52,500
Buy-back price per share	Rs. 30
Number of shares that can be bought back	41,750 shares

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

	Particulars	When loan fund is	
(a)	Loan funds (Rs.)	Rs. 25,00,000	Rs. 1,20,00,000
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (Rs.) (a/2)	12,50,000	60,00,000
(c)	Present equity shareholders fund (Rs.)	50,10,000	50,10,000

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 1:

Present Equity – Impact of Buyback on Equity = Minimum Equity to be maintained

$$50,10,000 - 40x = 12,50,000$$

$$X = 94,000 \text{ Numbers of Buyback Shares}$$

Situation 2:

Since the present equity is less than minimum equity to be maintained, the company is not permitted to buy back any shares.



Q.BB.SM.305:

Perrotte Ltd. has the following Capital Structure as on 31.03.2011:



S.No.	Particulars	(in crores)
1	Equity Share Capital (Shares of ₹ 10 each fully paid)	330
	Reserves and Surplus:	
2	General Reserve	240
3	Securities Premium Account	90
4	Profit & Loss Account	90
5	Infrastructure Development Reserve	180
6	Loan Funds	1800

The Shareholders of Perrotte Ltd., on the recommendation of their Board of Directors, have approved on 12.09.2011 a proposal to buy back the maximum permissible number of Equity shares considering the large surplus funds available at the disposal of the company.

The prevailing market value of the company's shares is Rs. 25 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 20% over market.

You are also informed that the Infrastructure Reserve is created to satisfy Income-tax Act requirements.

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 Rs. 1,200 crores or Rs. 1,500 crores.**

Assuming that the entire buy back is completed by 09.12.2011, show the accounting entries in the company's books in each situation.

SOLUTION**Statement determining the maximum number of shares to be bought back**

Number of shares

Particulars	When loan fund is		
	₹ 1,800 crores	₹ 1,200 crores	₹ 1,500 crores
Shares Outstanding Test (W.N.1)	8.25	8.25	8.25
Resources Test (W.N.2)	6.25	6.25	6.25
Debt Equity Ratio Test (W.N.3)	Nil	3.75	Nil
Maximum number of shares that can be bought back [least of the above]	Nil	3.75	Nil

Journal Entries for the Buy-Back (applicable only when loan fund is ₹ 1,200 crores)

₹ in crores

	Particulars	Debit	Credit
(a)	Equity share buy-back account	Dr.	112.5
	To Bank account		112.5
	(Being buy-back of 3.75 crores equity shares of ₹ 10 each @ ₹ 30 per share)		
(b)	Equity share capital account	Dr.	37.5
	Securities premium account	Dr.	75
	To Equity share buy-back account		112.5
	(Being cancellation of shares bought back)		
(c)	General reserve account	Dr.	37.5

	To Capital redemption reserve account		37.5
	(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)		

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

Particulars	(Shares in crores)
Number of shares outstanding	33
25% of the shares outstanding	8.25

2. Resources Test

Particulars	
Paid up capital (₹ in crores)	330
Free reserves (₹ in crores)	420
Shareholders' funds (₹ in crores)	750
25% of Shareholders fund (₹ in crores)	₹ 187.5 crores
Buy-back price per share	₹ 30
Number of shares that can be bought back (shares in crores)	6.25 crores shares

3. Debt Equity Ratio Test

	Particulars	When loan fund is		
		₹ 1,800 crores	₹ 1,200 crores	₹ 1,500 crores
(a)	Loan funds (₹ in crores)	1,800	1,200	1,500
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹ in crores)	900	600	750
(c)	Present equity shareholders fund (₹ in crores)	750	750	750
(d)	Future equity shareholder fund (₹ in crores) (See Note 2)	N.A.	712.5 (750-37.5)	N.A.
(e)	Maximum permitted buy-back of Equity (₹ in crores) [(d) – (b)] (See Note 2)	Nil	112.5 (by simultaneous equation)	Nil
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores) (See Note 2)	Nil	3.75 (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. In the question, it is stated that the company has surplus funds to dispose of therefore, it is presumed that buy-back is out of free reserves or securities premium and hence a sum equal to the nominal value of the share bought back shall be transferred to Capital Redemption Reserve (CRR). Utilization of CRR is restricted to issuance of fully paid-up bonus shares only. It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve. Therefore, for

calculation of future equity i.e., share capital and free reserves, amount transferred to CRR on buy-back has to be excluded from present equity.

3. Calculation for Situation 2:

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

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

Situation 1:

Present Equity – Impact of Buyback on Equity = Minimum Equity to be maintained

$$750 - 40x = 600$$

$$X = 3.75 \text{ crore Number of Buyback Shares}$$

SECTION C – CASE SCENERIO MCQs

Case Scenario 1:

Kesar Ltd., a company engaged in various business activities, has decided to initiate a share buy-back on 1st April, 2023. The company plans to repurchase 25,000 equity shares of ₹ 10 each at a price of ₹ 20 per share. This buy-back initiative is in compliance with the company's articles of association, and the necessary resolution has been duly passed by the company. As part of the financial arrangement for the share buy-back, Kesar Ltd. intends to utilize its current assets, particularly the bank balance, to make the payment for the repurchased shares.

Here is a snapshot of Kesar Ltd.'s Balance Sheet as of 31 st March, 2023:

- A. Share Capital: Equity share capital (fully paid up shares of ₹ 10 each) - ₹ 12,50,000
- B. Reserves and Surplus: Securities premium ₹ 2,50,000; Profit and loss account ₹ 1,25,000; Revenue reserve ₹ 15,00,000;
- C. Long term borrowings: 14% Debentures- ₹ 28,75,000, Unsecured Loans - ₹ 16,50,000
- D. Land and Building ₹ 19,30,000; Plant and machinery ₹ 18,00,000; Furniture and fitting ₹ 9,20,000 and Other Current Assets - ₹ 30,00,000

Authorized, issued and subscribed capital: Equity share capital (fully paid up shares of 10 each) - 12,50,000.

- i. By using the Shares Outstanding Test the number of shares that can be bought back
 - (a) 1,25,000
 - (b) 31,250
 - (c) 25,000
 - (d) 30,000
- ii. By using the Resources Test determine the number of shares that can be bought back:
 - (a) 25,000
 - (b) 31,250
 - (c) 28,750
 - (d) 39,062
- iii. By using the Debt Equity Ratio Test determine the number of shares that can be bought back:
 - (a) 25,000
 - (b) 31,250
 - (c) 28,750
 - (d) 39,062
- iv. On the basis of all three tests determine Maximum number of shares that can be bought back:
 - (a) 25,000
 - (b) 31,250
 - (c) 28,750
 - (d) 39,062

(i)	(ii)	(iii)	(iv)
(b)	(d)	(c)	(c)



Case Scenario 2:

Kumar Ltd., a privately-held company, operates in the manufacturing industry. Founded in 2008, the company has steadily grown its operations and established a strong presence in the market. As of 31st March, 2023, the company's capital structure reflects a blend of equity and debt financing.

Capital Structure Overview:

- **Equity Share Capital:** The company has a total of ₹30,00,000 invested in equity shares, each valued at ₹10 and fully paid.
- **Reserves & Surplus:** Kumar Ltd. has accumulated reserves and surplus totaling ₹49,00,000, comprising contributions from various sources including General Reserve (₹ 32,50,000), Security Premium Account (₹ 6,00,000), Profit & Loss Account (₹ 4,30,000), and Revaluation Reserve (₹6,20,000).
- **Loan Funds:** The company has acquired loan funds amounting to ₹42,00,000 to support its operational and growth initiatives.

Buy-Back Decision:

Considering its financial position and market conditions, Kumar Ltd. has decided to initiate a share buy-back program. The company intends to repurchase its shares at a price of ₹30 per share.

In accordance with financial regulations and internal policies, Kumar Ltd. aims to assess the maximum number of shares it can repurchase while maintaining a prudent debt-equity ratio. By utilizing the Debt Equity Ratio Test, the company seeks to strike a balance between its equity base and debt obligations.

Based on the above information, answer the following questions.

- What is the minimum equity Kumar Ltd. needs to maintain after buy-back, according to the Debt Equity Ratio Test?
 - ₹ 12,95,000
 - ₹ 21,00,000
 - ₹ 32,50,000
 - ₹ 6,00,000
- What is the maximum permitted buy-back of equity for Kumar Ltd.?
 - ₹ 38,85,000
 - ₹ 42,00,000
 - ₹ 12,95,000
 - ₹ 59,85,000
- How many shares of Kumar Ltd. can be bought back at ₹ 30 per share according to the Debt Equity Ratio Test?
 - 43,000
 - 1,29,500
 - 2,00,000
 - 78,000

(i)	(ii)	(iii)
(b)	(a)	(b)



Student Notes:-