

—Buyback of Securities—

Statement determining max. no. of shares to be bought back

Particulars	No. of shares
1. Share Outstanding Test (WN ①)	xx
2. Resources Test (WN ②)	xx
3. Debt Equity Ratio Test (WN ③)	xx
Max. no. of shares that can be bought back (Least among above)	(xx)

Working note:

WN No.	Particulars	
1.	<u>Share outstanding Test</u> (i) 25% of shares outstanding [in shares]	[xx] shares
2.	<u>Resource Test</u> (i) 25% of <u>shareholders' fund</u> ↓ (Paid up SC + Free Reserves + SPalc) [in Rupees] (ii) No. of shares that can be bought back [(i) ÷ Buyback price per share]	₹ [xx] [xx] shares
3.	<u>Debt Equity Ratio Test</u> (i) Loan funds (ii) Minimum Equity to be maintained after buyback in ratio 2:1 [(i) ÷ 2] (iii) Present Equity SH Fund	₹ xx ₹ xx ₹ xx

(iv) Future Equity SH's fund (WN ④)	₹ xx
(v) Maximum permitted buyback of Equity (WN ④)	₹ xx
(vi) No. of shares that can be bought back [(v) ÷ Buyback price per share]	xx shares

Note:

If Minimum Equity to be maintained after buyback > Present Equity SHs' fund
if is impossible to buyback shares

WN ④ : Applying simultaneous equation method,

- Assume
- Amount transferred to CRR account 'x'
 - Max. permitted buyback of equity 'y'

Then,

$$\left(\text{Present Equity} - \text{Trf to CRR} \right) - \text{Min. Equity to be maintained} = \text{Max. permitted Buyback}$$

————— ①

$$\text{Max. permitted buyback} \times \frac{\text{NV per share}}{\text{offer price per share}} = \text{Trf to CRR}$$

————— ②

solve ① & ②, x & y value obtained

Future Equity shareholder fund =

Present Equity shareholder fund - Amount trf to CRR

2. Free Reserves :

- | | |
|---------------------------------|--------------------------------------|
| ✓ Revenue Reserve | ✗ Revaluation Reserve |
| ✓ General Reserve | ✗ Capital Reserve |
| ✓ P&L | ✗ Infrastructure Development Reserve |
| ✓ Dividend Equalisation Reserve | ✗ CRR |

3. Buyback

Buyback of shares can be made out of :

- (1) FR (or)
- (2) SP a/c (or)
- (3) Proceeds of any shares / other specified securities.

4. Journal Entries :

<p>1. <u>To make partly paid ES fully paid</u></p>	<p>(a) <u>On making Final call</u> ES final call a/c Dr To ESC a/c</p> <p>(b) <u>On Receipt</u> Bank a/c Dr To ES final call a/c</p>												
<p>2. <u>To sell Investments to arrange cash</u></p> <table border="0" style="margin-left: 40px;"> <tr> <td>BV</td> <td style="text-align: right;">xx</td> </tr> <tr> <td>(-) Sale Proceeds</td> <td style="text-align: right;">(xx)</td> </tr> <tr> <td></td> <td style="text-align: center;"> <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td style="padding: 2px;">(xx)</td> <td style="padding: 2px;">/</td> <td style="padding: 2px;">xx</td> </tr> </table> </td> </tr> <tr> <td>PROFIT</td> <td></td> <td style="text-align: right;">LOSS</td> </tr> </table> <p style="margin-left: 40px;"> BV > Sale proceeds ⇒ Loss BV < Sale proceeds ⇒ Profit </p>	BV	xx	(-) Sale Proceeds	(xx)		<table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td style="padding: 2px;">(xx)</td> <td style="padding: 2px;">/</td> <td style="padding: 2px;">xx</td> </tr> </table>	(xx)	/	xx	PROFIT		LOSS	<p>Bank a/c Dr P&L a/c Dr (Loss)</p> <p>To Investment a/c To P&L a/c (Profit)</p>
BV	xx												
(-) Sale Proceeds	(xx)												
	<table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td style="padding: 2px;">(xx)</td> <td style="padding: 2px;">/</td> <td style="padding: 2px;">xx</td> </tr> </table>	(xx)	/	xx									
(xx)	/	xx											
PROFIT		LOSS											

<p>3. <u>Money due to ESH on BB</u></p>	<p>ESC a/c Dr (FV) Premium Payable on BB a/c Dr To ES BB a/c</p>
<p>4. <u>Write off of Premium Payable on BB</u></p>	<p>SP a/c Dr GR a/c Dr RR a/c Dr PBL a/c Dr To Premium Payable on BB a/c</p>
<p>5. <u>Create CRR</u></p> <p>FV of shares BB xx (-) FV of shares issued (xx) CRR* <u>xx</u></p>	<p>PBL a/c Dr GR a/c Dr RR a/c Dr SP a/c Dr To CRR a/c</p>
<p>6. <u>Fresh Issue</u></p>	<p>Bank a/c To PSC a/c (FV) To SP a/c</p>
<p>7. <u>Payment to ESH</u></p>	<p>ES BB a/c To Bank a/c</p>
<p>8. <u>Bonus share Issue</u></p>	<p>CRR a/c Dr To Bonus share Bonus shares a/c To share Capital a/c</p>

Redemption of Preference Shares

(1) x% Redeemable PSC a/c Dr
 Premium on PSC Dr
 To PSH a/c

[Being PSC trf to PSH a/c]

(2) Revenue Reserve a/c
 To CRR a/c

[creation of CRR a/c]

(3) PSH a/c
 To Bank a/c

[Being PSH are paid]

(4) SP a/c
 To Premium on PS

[writeoff of Premium on PS]

ESOP

Total ESOP exercised by 1000

Market Price	xx		
(-) Price allotted for employees	(xx)	Bank a/c Dr	No. of shares x [xx]
Value of option	(xx)	ESOP a/c (current liabilities)	No. of shares x [xx]
		To ESC (FV)	[xx]
		To SP a/c (Balance)	[xx]