



## BUYBACK OF SECURITIES

Student  
Notes

**Buy-back of shares** means purchase of its own shares by a company. When shares are bought back by a company, they have to be cancelled by the company. Thus, shares buy-back results in decrease in share capital of the company. **A company cannot buy its own shares for the purpose of investment.** A company having sufficient cash may decide to buy-back its own shares.

**The following may be the objectives/advantages of Buy-back of shares:**

- (a) to **increase earnings per share** if there is no dilution in company's earnings as the buy-back of shares reduces the outstanding number of shares.
- (b) to **increase promoters holding** as the shares which are bought back are cancelled.
- (c) to **discourage others to make hostile bid to take over the company** as the buy-back will increase the promoters holding.
- (d) to **support the share price on the stock exchanges** when the share price, in the opinion of company management, is less than its worth, especially in the depressed market.
- (e) to **pay surplus cash to shareholders** when the company does not need it for business

**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.

**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 authorizing the buy-back;

**Note:-** (1) 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 and special resolution as mentioned above.

(2) 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.

CA Tejas Suchak





## BUYBACK OF SECURITIES

Student  
Notes

### Equity Shares With Differential Rights

- Differentiation can be done by giving a superior dividend / Superior voting right / diluted voting right to a class of equity shareholders.
- Preference shares are not issued with differential rights. It is only the equity shares, which are issued.

(Share capital And Debenture) Rules, 2014 prescribe following conditions to be compulsorily complied with : (Dec 21)

- It should be authorised by articles of association.
- The shares with differential rights shall not exceed twenty-six percent of the total post-issue paid up equity share capital including equity shares with differential rights issued at any point of time.
- The company having consistent track record of distributable profits for the last three years.
- The company has not defaulted in filing financial statements and annual returns for three financial years immediately preceding the financial year .
- The company has no subsisting default in the payment of a declared dividend to its shareholders or repayment of its matured deposits or redemption of its preference shares or debentures.
- The company has not been penalized by Court or Tribunal during the last three years of any offence under any Act.
- The company has not defaulted in payment of the dividend on preference shares or repayment of any term loan, dues with respect to statutory payments relating to its employees to any authority or default in crediting the amount in Investor Education and Protection Fund to the Central Government.

#### Example (PYQ dec 2021)

Equity capital is held by X, Y and Z in the proportion of 40:40:20. A, B and C hold preference share capital in the proportion of 50:30:20. If the paid up equity share capital of the company is ₹ 1 Crore and Preference share capital is ₹ 50 Lakh. Find their voting Rights in case of resolution of winding up of the company.

**Solution:-** The relative weight in the voting right of equity shareholders and preference shareholders will be  $\frac{2}{3}$  and  $\frac{1}{3}$  based on the respective capital of Equity & Preference share Holders. The respective voting right of various shareholders will be:

#### Equity Shareholders:-

$$X = \frac{2}{3} * \frac{40}{100} = \frac{80}{300}$$

$$Y = \frac{2}{3} * \frac{40}{100} = \frac{80}{300}$$

$$Z = \frac{2}{3} * \frac{20}{100} = \frac{40}{300}$$

#### Preference shareholders:-

$$A = \frac{1}{3} * \frac{50}{100} = \frac{50}{300}$$

$$B = \frac{1}{3} * \frac{30}{100} = \frac{30}{300}$$

$$C = \frac{1}{3} * \frac{20}{100} = \frac{20}{300}$$

Hence their relative weights are  $\frac{80}{300} : \frac{80}{300} : \frac{40}{300} : \frac{50}{300} : \frac{30}{300} : \frac{20}{300}$  or 8:8:4:5:3:2.

Their voting power is X (26.67%), Y (26.67%), Z (13.33%), A (16.67%), B (10%) and C (6.67%)

CA Tejas Suchak

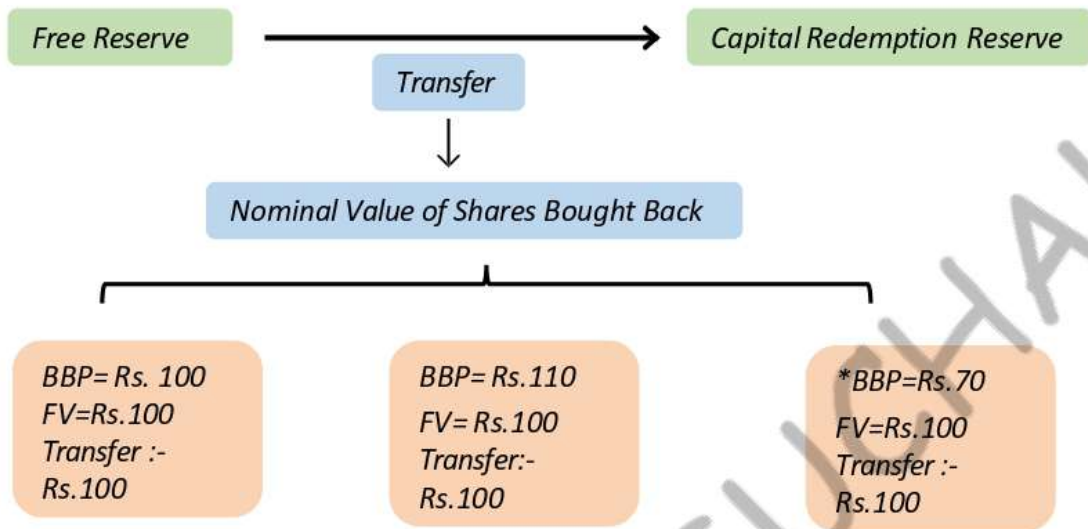




# BUYBACK OF SECURITIES

Student Notes

## Buyback: Method 1: Out of Existing Reserves



**BBP :- Buyback Price**

**Free Reserves** are those reserves which are available for distribution as dividend and includes Securities Premium

1. General Reserve
2. Profit & loss A/c
3. Dividend Equalisation Reserve
4. Securities Premium

Capital Redemption Reserves

**Note:-** For the purpose of **redemption of Preference shares**, Securities Premium cannot be used to create CRR & also not to write off the premium on redemption ( sec. 133) Whereas, for the purpose of **buyback of Equity Shares**, Securities Premium can be used for transfer to CRR as well as to write off Premium on buyback.

## Method 2:- Buyback of Equity Share Capital out of proceeds of Fresh Issue

\*\*Proceeds of Fresh Issue of Share Capital → Nominal Value of BB

- ❖ Fresh issue of debentures can't be made to buyback existing Equity Share Capital.
- ❖ Fresh issue of Share Capital Should not be at the same type of Equity Share Capital to be bought back

CA Tejas Suchak

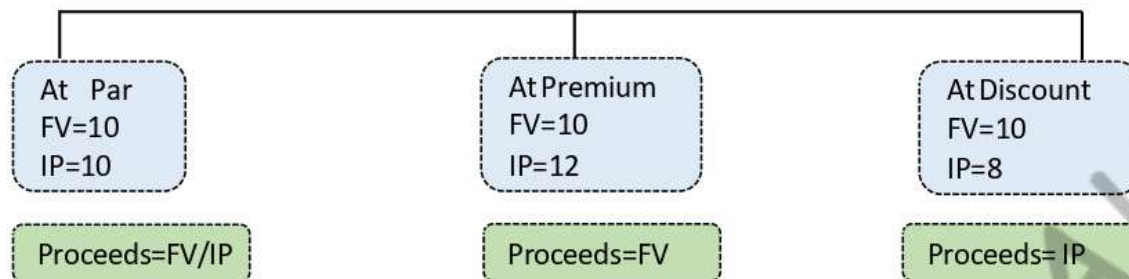




# BUYBACK OF SECURITIES

Student Notes

**\*\*Meaning of Proceeds = Lower of FV or IP**



### Case 1

BB Price= 150/Shares

No.= 1,00,000 equity shares.(Face Value=100)

New Preference Shares issued @ 10/sh. (FV=10)

**Sol:** Proceeds of FI = Nom.Value of Buyback

$$X = 100000 * 100$$

1. Total Proceeds = 1,00,00,000
2. Proceeds/sh = 10
3. No. of Shares = 10,00,000

### Case 2

BB Price= 150/Shares

No.= 1,00,000 Equity shares.(Face Value=100)

New Preference Shares issued @ 12/sh. (FV=10)

**Sol:** Proceeds of FI = Nom.Value of Buyback

$$X = 100000 * 100$$

1. Total Proceeds = 1,00,00,000
2. Proceeds/sh = 10
3. No. of Shares = 10,00,000

### Case 3

BB Price= 150/Shares

No.= 1,00,000 Equity shares.(Face Value=100)

New Preference Shares issued @ 9/sh. (FV=10)

**Sol:** Proceeds of FI = Nom.Value of Buyback

$$X = 100000 * 100$$

1. Total Proceeds = 1,00,00,000
2. Proceeds/sh = 9
3. No. of Shares = 11,11,112

CA Tejas Suchak

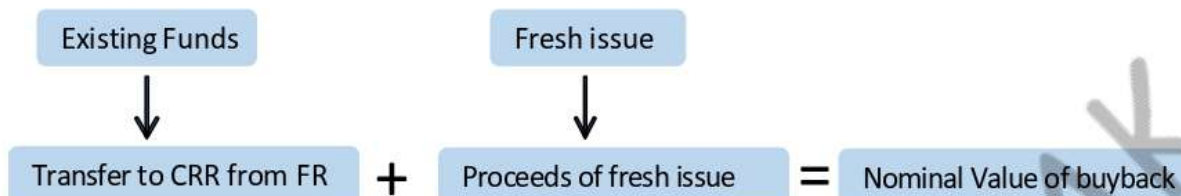




## BUYBACK OF SECURITIES

Student  
Notes

**Method 3: - When existing funds and proceeds of fresh issue both are used for the purpose of buyback**



**Example:-**

1. Profit & loss A/c = Rs.1,00,000/-
2. General reserve = Rs.1,00,000/-
3. Securities premium = Rs.3,00,000/-
4. Company wants to buyback 3,00,000 shares of Rs.10 each @ Rs.25/Shares.
5. New shares issued at Rs. 120/sh. (FV=Rs.100)
5. Calculate the number of equity Shares that can be issued by the company whose F.V.is Rs.100/share @Rs.120/Share

**Solution:-**

**Transfer to CRR from FR + Proceeds of Fresh Issue = Nominal Value of buyback.**

$$5,00,000 + x = 30,00,000/-$$

**x = 25,00,000**

**Number of Shares to be issued:**

1. Total Proceeds= 25,00,000
2. Proceeds/share= 100
3. No. of Shares(1/2)= 25,000 Shares

Also, the amount raised by Fresh issue. = 25,000\*120 = 30,00,000/-

CA Tejas Suchak





## BUYBACK OF SECURITIES

Student  
Notes

### Journal Entries for Buyback of Shares

Amt in Rs.

Date	Particular	Debit	Credit
(a)	Bank A/c <i>Dr.</i> To Preference Share Capital A/c To Security Premium Reserve A/c (being ___ preference shares issued, for the purpose of buyback of Equity share )		
(b)	Free Reserves A/c <i>Dr.</i> To Capital Redemption Reserve A/c (Being transfer of free reserves to capital redemption reserve)		
(c)	Equity Share Capital A/c <i>Dr.</i> Premium on buyback A/c <i>Dr.</i> To Equity Shareholders A/c (Being, equity shares bought back)		
(d)	Equity Shareholders A/c <i>Dr.</i> To bank A/c (Being payment for buy-back of equity shares of Rs. ___ each @ Rs. ___ per share)		
(e)	Free Reserves A/c <i>Dr.</i> To Premium on buyback A/c (Being Premium Payable on buy-back account written off against Free Reserves A/c.)		

CA Tejas Suchak





## BUYBACK OF SECURITIES

Student  
Notes

### Maximum Permissible Buyback

1. Resources Test :- Maximum 25% (\*Total paid up Capital + Free Reserves)
2. Share Outstanding test :- Maximum 25% (Number of Shares Outstanding)
3. Debt Equity Ratio Test :- After buyback; Total Debt / Total Equity  $\leq 2 : 1$

Lowest of these three tests is permissible

\*Total Paid up Capital :- Equity Share Capital

#### Free Reserve :-

1. Profit & loss Balance
2. General reserve
3. Dividend Equalisation Reserve
4. Securities premium

**Equity** :- Equity paid up capital + Free Reserves

**Note**:- No. of Shares outstanding = Preference Shares are not included.

**Total debt** :- Both Short Term and Long Term Debt will be included. (Secured as well as unsecured debt is included.)

#### Example:-

Free reserves :- Rs.42,80,000/-

Equity Share Capital :- Rs.30,00,000/-

Total Debt :- Rs.42,00,000/-

You are required to compute maximum no. of shares bought back by Debt – Equity Ratio Test if buyback @ Rs.30

**Sol**:- Total debt / Total Equity  $\leq 2:1$

1. Total Debt after buyback = Rs.42,00,000/- (because after buyback, no change occur in Debt)
2. Total Equity after buyback = Rs.21,00,000/-
3. Total Equity before Buyback = Rs.72,80,000/- (Given)
4. Max. Equity that can be Buyback = Rs.51,80,000/-
5. No. of Shares that can be buyback :- 1,29,500 (51,80,000 / 40)

If one Equity Share is bought back then,

1. Our Paid-up Capital is decreased by **Rs.10** (assume face value of Equity Share is Rs.10).
2. Our free Reserve is decreased by **Rs. 10**, because we need to transfer nominal value of share bought back to CRR.
3. Our free Reserve is decreased by **Rs.20**, because we need to pay premium on buyback.

Total of shareholders funds utilised is Rs.40

CA Tejas Suchak





## BUYBACK OF SECURITIES

Student  
Notes

### Question 1

Category:-

KG Limited furnishes the following summarized Balance Sheet as at 31st March, 2013:

Liabilities	(₹ in lakhs)	Assets	(₹ in lakhs)
Equity share capital (fully paid up shares of ₹ 10 each)	1,200	Machinery	1,800
Securities premium	175	Furniture	226
General reserve	265	Investment	74
Capital redemption reserve	200	Inventory	600
Profit & loss A/c	170	Trade receivables	260
12% Debentures	750	Cash at bank	740
Trade payables	745		
Other current liabilities	195		
<b>Total</b>	<b>3,700</b>	<b>Total</b>	<b>3,700</b>

- On 1st April, 2013, the company announced the buyback of 25% of its equity shares @ ₹ 15 per share. For this purpose, it sold all of its investments for ₹ 75 lakhs.
- On 5th April, 2013, the company achieved the target of buy back.
- On 30th April, 2013 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:

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

(Notebook page No.      )

### Question 2

Category:-

Following is the summarized Balance Sheet of Competent Limited as on 31st March, 2013:

Assets	₹	Assets	₹
Equity Shares of ₹ 10 each fully paid up	12,50,000	Fixed Assets	46,50,000
Revenue reserve	15,00,000	Current Assets	30,00,000
Securities Premium	2,50,000		

CA Tejas Suchak







## BUYBACK OF SECURITIES

Profit & Loss Account	1,25,000		
Secured Loans:			
12% Debentures	18,75,000		
Unsecured Loans	10,00,000		
Current maturities of long term borrowings	16,50,000		
<b>Total</b>	<b>76,50,000</b>	<b>Total</b>	<b>76,50,000</b>

Student  
Notes

The company wants to buy back 25,000 equity shares of ₹ 10 each, on 1st April, 2013 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.

(Notebook Page No. )

### Question 3

Category:-

M Ltd. furnishes the following summarized Balance Sheet as at 31st March, 2013 :

	₹ in '000	₹ in '000
<b>Equity &amp; Liabilities</b>		
<b>Share Capital:</b>		
Authorized Capital:		5,000
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 (issued two months back for the purpose of buy back)	2,000	5,000
<b>Reserve and Surplus:</b>		
Capital reserve	10	
Revenue reserve	4,000	
Securities premium	500	
Profit and Loss account	1,800	6,310
<b>Non-current liabilities - 10% Debentures</b>		400
<b>Current liabilities and provisions</b>		40
<b>Total</b>		<b>11,570</b>

CA Tejas Suchak





## BUYBACK OF SECURITIES

Student  
Notes

Assets		
Fixed Assets: Cost	3,000	
Less: Provision for depreciation	(250)	2,750
Non-current investments at cost		5,000
Current assets, loans and advances (including cash and bank balances)		4,000
<b>Total</b>		<b>11,750</b>

- ❑ 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.
- ❑ The company redeemed the preference shares at a premium of 10% on 1st April, 2013.
- ❑ Included in its investments were 'Investments in own debentures' costing ₹ 3 lakhs (face value ₹ 3.30 lakhs). These debentures were cancelled on 1st April, 2013.

You are required to pass necessary Journal entries and prepare the Balance Sheet on 01.04.2013. ( Notebook Page no.         )

### Question 4

Category:-

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

Liabilities	₹	Assets	₹
Equity Shares of ₹ 10 each fully Paid Up	12,50,000	Fixed Assets	46,50,000
Bonus Shares	1,00,000	Current Assets	40,00,000
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	1,00,000		
Revaluation Reserve	1,00,000		
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		
<b>Total</b>	<b>86,50,000</b>	<b>Total</b>	<b>86,50,000</b>

CA Tejas Suchak





## BUYBACK OF SECURITIES

Student  
Notes

- ❑ The Company wants to buy back 25,000 Equity Shares of ₹ 10 each, on 1st April, 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 the 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

### Question 5

Category:-

The following is the Summarized Balance Sheet of M/s. Vriddhi Infra Ltd as on 31st March –

Equity & Liabilities	₹	Assets	₹
<b>1. Shareholders Funds:</b>		<b>1. Non-Current Assets</b>	
(a) Share Capital:		(a) Fixed (Tangible) Assets:	
1,00,000 Equity Shares of ₹ 10 each fully paid up	10,00,000	Land & Building	21,50,000
(b) Reserve & Surplus:		Plant and Machinery	15,00,000
Securities Premium	3,00,000	(b) Non-Current Investments	2,00,000
General Reserve	2,50,000	<b>2. Current Assets</b>	
Profit & Loss Account Surplus	1,50,000	(a) Trade Receivables	5,50,000
<b>2. Non-Current Liabilities</b>		(b) Inventories	1,80,000
(a) Long Term Borrowings:		(c) Cash & Cash Equivalents	40,000
(b) 10% Debentures (Secured by floating charge on all assets)	20,00,000		
(c) Unsecured Loans	8,00,000		
<b>3. Current Liabilities &amp; Provisions: Trade Payables</b>	<b>1,20,000</b>		
<b>Total</b>	<b>46,20,000</b>	<b>Total</b>	<b>46,20,000</b>

On 21st April, the Company announced the Buy Back of 25,000 of its Equity Shares at ₹ 15 per Share.

For this purpose, it sold all of its Investments for ₹ 2.50 Lakhs. On 25th April, the Company achieved the target of Buy Back.

CA Tejas Suchak





## BUYBACK OF SECURITIES

Student  
Notes

- ❑ On 1st May, the Company issued one fully paid up Equity Share of ₹ 10 by way of Bonus, for every Five Equity Shares held by the Equity Shareholders.

Pass necessary Journal Entries for the above transactions

### Question 6

Category:-

Perrotte Ltd. (a non-listed company) has the following Capital Structure as on 31.03.2011:

	Particulars	(₹ in crores)	
(1)	Equity Share Capital (Shares of ₹ 10 each fully paid)	-	330
(2)	Reserves and Surplus		
	General Reserve	240	-
	Securities Premium Account	90	-
	Profit & Loss Account	90	-
	Infrastructure Development Reserve	180	600
(3)	Loan Funds		1,800

- ❖ 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 ₹ 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 Development 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 ₹ 1,200 crores or ₹ 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.

CA Tejas Suchak





## BUYBACK OF SECURITIES

Student  
Notes

### Question 7

Category:-

Extra Ltd. (a non-listed company) furnishes you with the following summarized Balance Sheet as on 31st March, 2012: (₹ in lakhs)

Liabilities	Amount	Assets	Amount
Equity shares of ₹ 10 each fully paid	100	Fixed assets less depreciation	50
9% Redeemable preference shares of ₹ 100 each fully paid	20	Investments at cost	120
Capital reserves	8	Current assets	142
Revenue reserves	50		
Securities premium	60		
10% Debentures	4		
Current liabilities	70		
<b>Total</b>	<b>312</b>	<b>Total</b>	<b>312</b>

- The company redeemed the preference shares at a premium of 10% on 1st April, 2012.
- 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, which appeared as a part of the current assets.
- Included in its investment were "investments in own debentures" costing ₹ 2 lakhs (face value ₹ 2.20 lakhs). These debentures were cancelled on 1st April, 2012.
- 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 1.04.2012 employees exercised their options for 50,000 shares.

Pass the journal entries to record the above. Prepare Balance Sheet as at 01.04.2012.

Special points :-

---

---

---

---

---

---

---

---

---

---

---

---

CA Tejas Suchak

