

# Buyback of Securities

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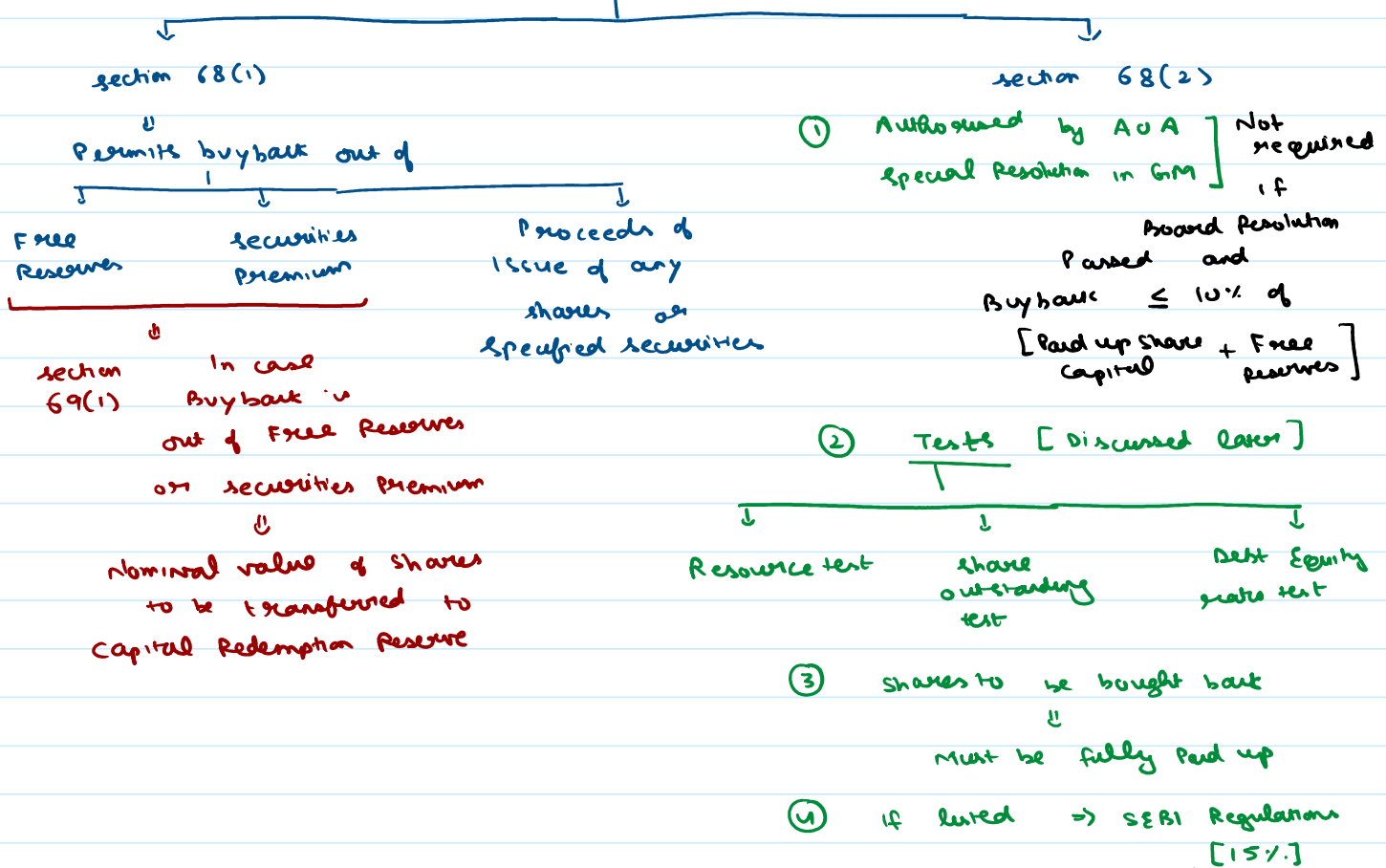
## Buyback of Securities

### Buyback of Shares

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- Purchase of its own shares by a company
- Buyback is governed by section 68 of Companies Act 2013

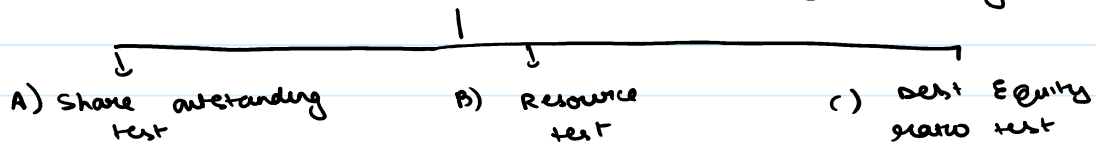
### Buyback of Shares



Maximum Number of shares to be bought back

↓

Least no. of shares arrived by performing



A) Share outstanding test

Ascertain the no. of shares

25% of no. of shares

↓  
eligible for Buyback

B) Resource test

Maximum outflow of Resources cannot be greater than  
25% of [Paid up share capital + Free Reserves]

Steps

① [Paid up share capital + Free Reserves] × 25%  
OR  
Shareholder's funds × 25%

② no. of shares =  $\frac{\text{Amount as per step 1}}{\text{Buyback Price}}$

C) Net Equity Ratio test ⇒ [2:1]

Steps ① Compute net ⇒ total reserved funds

② Minimum Equity [target Equity]  
 $\frac{1}{2}$  of [1]

③ Ascertain Present Equity [shareholder funds]

④ Compute Maximum Possible Dilution in Equity  
[step 3 - step 2]

⑤ Ascertain no. of shares =  $\frac{\text{Step 4 Amount}}{\text{Buyback Price}}$

Journal entries

1) Amount due or buyback of equity shares

1] Amount due on buyback of Equity shares

Equity share Capital	Dr.	[No. of shares x face value]
Premium on buyback	Dr.	
to Equity share Buyback		

2] Payment to shareholder

Equity share Buyback	Dr.
to Bank	

3] Transfer of free Reserves and Securities Premium to extent of Nominal value of shares bought back

Securities Premium	Dr.
General Reserves	Dr.
Profit & Loss	Dr.
Other Reserves	Dr.
to Capital Redemption Reserve A/c	

\* Revaluation Reserve cannot be used.

4] For writing off premium on buyback

Securities Premium A/c	Dr.
Free Reserves A/c	Dr.
to Premium on Buyback	

Notes \* Securities Premium is not a free Reserve but for purpose of buyback only it is considered free reserves.

\* Securities to be bought back must be fully paid up  
 ↓  
 If in question Partly Paid up  
 ↓  
 Firstly Receive call Money  
 ↓  
 then Buyback



Investment in own debentures

Dr.

- to Investment in own debentures
- to Profit on cancellation of own debentures

## ESOP

PANIC

- Employee stock option outstanding
- to Equity share capital
- to securities premium

Dr (Exercise Price)

Dr. (Intrinsic value)

[Face value]

[EP + value of option - face value]