Buy Back of Eq. Shares (Section 68)

1. Meaning of Buy Back

The term Buy Back of shares implies the act of purchasing its own shares by the co.

2. Accounting of Buy Back
Journal Entries

Co. 20k shares Buy Back @ ₹25
(Face value = ₹10)

(a) Cancellation of Shares Bought Back

Eq Share Cap A/c Dr.	2L	(20000 × ₹10 (FV)
Premium on Buy Back A/c Dr.	3L	(20000 × ₹15 (Prem)
To Eq Share Holders A/c /	5L	(20000 × 25)
Eq Shares Bought Back A/c		

(b) Payment of Amt. due

Eq Share Holders / Eq Sh. Bought Back A/c Dr.	5L	
To CIB	5L	

(c) Conte off Prem on Buy Back (eg.

	Bk	
Security Prem A/c Dr.	1L	A/y
Free Reserve A/c Dr.	2L	S.P 1L
To Premium on Buy Back	3L	G/R 5L
		P/L 2L

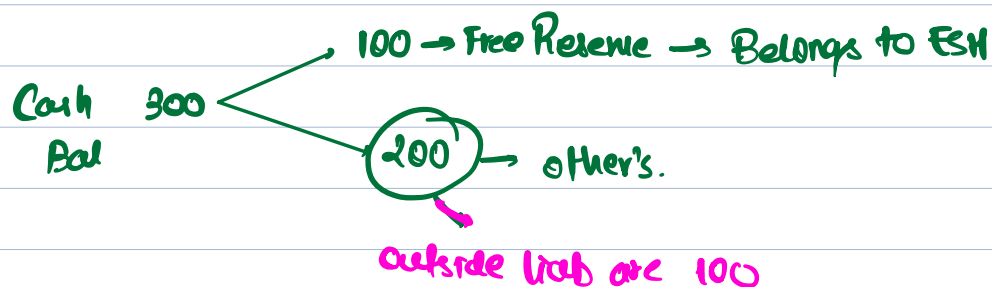(eg. Gen. Rese, P/L, Revenue Res. etc).

⑩ Transfer of Reserves to CRR (Capital Redemp^{tn} Reserve) to the extent of face value of shares bought back.

Free Reserves A/c Dr   2L
      TO CRR   2L

Extra :

Why transfer to CRR ?

Before BB   B/s (BB virtuals)

ESC	100	Assets	
R&S (Free Reserves)	100	cash / Bank	300
outside Liab (Deb / Bank / loans / Creditors)	100		

100 → Free Reserve → Belongs to ESH

Cash Bal   300

200 → other's.

Outside liab are 100

i.e. outside liab are 2 times protected.

BB Happens   2 shares @ ₹10 (FV) = 20 ⟶ ESC   20
                                           TO LIB   20

After BB

Bks BB l/Virtuals

Esc	~~80~~ ~~100~~	CIB ~~280~~ ~~300~~
Res	100	
Outside liab	100	

Free Reserves 100 for ESH

Cash Bal 280 → 180 → others.

Outside 100
liab
_____

1.8 times protected.

Trf to CRR

F·R   20
TO CRR.   20

Bks BB l/Virtuals

Esc	~~80~~ ~~100~~	CIB ~~280~~ ~~300~~
Res (Free Resc)	~~100~~ 80	
C CRR (Non Free Resc)	20	
lock. Outside liab	100	

CRR
to Esc

F.R: 80 (Eq waale ke liye hai)

Cash Bal 280

200 others.

outside liab 100

↳ 2 times protected
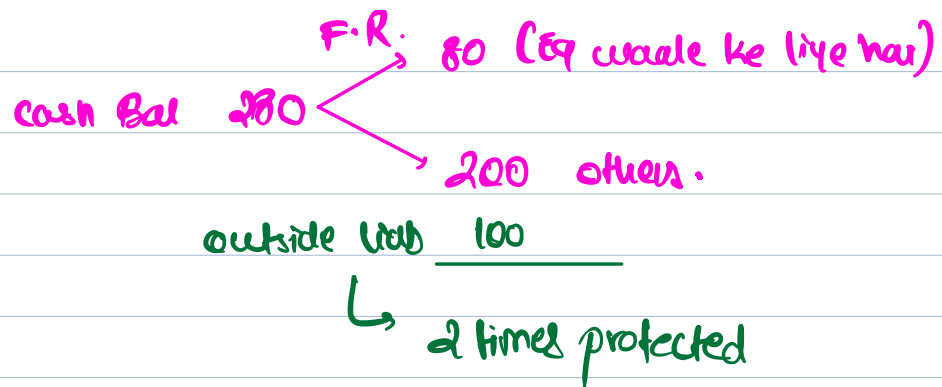
Note:

① CRR can only be used for issuing Bonus shares

J.E   C.R.R
         To Bonus Shares
      Bonus Shares
         To ESC

As Bonus shares dene se free reserves pe koi impact nahi aaya.
Only CRR reduces & ESC increases.

② Securities Premium is not a free Reserve, But for the purpose of Buy Back it will be treated as a Free Reserve.
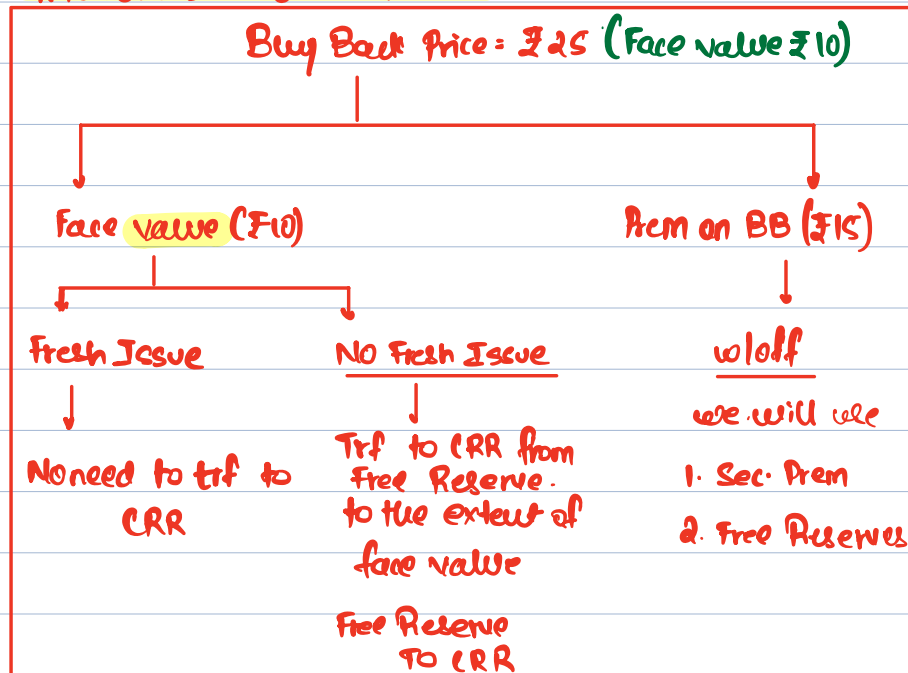
Securities Premium
(Free Reserve)

→ for writing off Prem on BB → can be used

→ for transfer to CRR → Not to be used.

③ Transfer of face value of shares will **NOT** be done from Free Reserve to CRR when company issued new shares (equity or Pref) for the purpose of Buy Back.

eg: Bahar se samosa laakr khaya ghar mein, jo ghar mein pehle se

pada tha wooh nahi khaya. ∴ No need to lock funds in CRR.

Buy Back Price = ₹25 (Face value ₹10)

├── Face value (₹10)
│   ├── Fresh Issue → No need to trf to CRR
│   └── No Fresh Issue → Trf to CRR from Free Reserve. to the extent of face value
│   Free Reserve TO CRR
│
└── Prem on BB (₹15) → w/off
                       we will use
                       1. Sec. Prem
                       2. Free Reserves

Q1 Journal Entries

① Sale of Invst

C/B A/c   Dr   25L
Profit /loss (loss) Dr (5L)
    To Invst A/c   30L   (always cost /carrying Amt)

② Buy Back

ⓐ Eq Share Cap (Esc) A/c Dr   600000   (60000 × ₹10)
    Prem on B.B A/c   Dr   300000   (60000 × ₹5)
        To Eq Share Bought Back A/c 900000   (60000 × ₹15)

(b) Eq. Shares Bought Back A/c Dr   900000
        To   C/B   900000

(c) Sec. Prem A/c Dr   300000
        TO Prem on B.B A/c   300000

(d) Revenue Reserve A/c Dr A/c 6000000   } Face value
        TO CRR   600000   }

_____

Q2

J] Journal Entries

1] Redemption of Pref Share (Hint: Entries are same as Buy Back of Eq.sh)
                                                    (₹ in crores)

01/01/X1   Pref Sh. Cap A/c Dr   75
                To Pref Sh. holders A/c   75

            Pref Sh. Holders A/c Dr   75
                To C/B   75

            Revenue Reserve   75
                To CRR   75

2] Eq Shares B.B (0.5cr shares @ ₹50 { FV 10 = 5cr · S.P 40 = 20 cr)

@ Eq Sh. Cap A/c Dr   5cr
Prem on B·B A/c Dr   20cr
    To Eq. Shares Bought Back A/c   25cr

ⓑ Eq Shares Bought Back A/c Dr   25
    To C|B   25

ⓒ Sec. Prem   20
    To Prem on BB   20

ⓓ Rev Rese   5   } @ Face value
    To CRR   5

Balance Sheet of Anu Hd as at 01.04.X1

Particulars	Notes	₹
Equity & Liab		
Shareholder's funds		
A. Share Capital	1	20
B. Reserves & Surplus	2	280
Current Liab		
A. Trade payables		40
Total		340
Assets		
Non-Current Assets		
A. Property, Plant & Equipment		-
B. Non-Current Investments		100
Current Assets		
A. Trade receivables		140
B. Cash & Cash equivalents	3	100
		340

No adj in this ∴ Note not prepared. → { - , - }

Notes to A/c's

① Share capital
Authorised, Issued & Subscribed Share Cap.

12% Pref Share	75	
Less: Redemption	(75)	NIL
Eq shares	25	
less: Buy Back	(5)	20
		20

⑤ Reserves & Surplus

ⓐ Capital Reserve		15
ⓑ Sec. Prem	25	
less: Prem on BB	(20)	5
ⓒ Revenue Reserve	260	
less: Trf to CRR (For Pref)	(75)	
less: —"— (For Eq)	(5)	180
ⓓ CRR	-	
Add: Trf from Rev Reserve (For Pref)	75	
Add: ——"—— (for Eq)	5	80
		280

③ Cash & Cash Equivalent

Opn Bal	200	
less: Redempt^n of Pref	(75)	
less: Buy Back of Eq Share	(25)	100

Ques 3

I] Journal Entries

i) Sale of Invst

01/04/x1   Bank A/c Dr   75
        To Invst   74
        To P/L (Profit)   1

II] Buy Back of shares   (1200/10 = 120 lakh share × 25%) = 30L shares < FV 10, S.P 5

05/04/x1   Eq Sh. Cap A/c Dr   300
    Prem on B.B A/c Dr   150
        To Eq. Shares Bought Back A/c   450

Eq Shares Bought Back A/c Dr 450
        To CIB   450

Sec. Prem   150
        To Prem on BB   150

Gen. Res A/c Dr   265
Profit or loss A/c Dr (B/F) 35
        To CRR   300

III] Bonus Shares
(120L shares (-) 30L shares) = 90L shares × $\frac{1}{4}$ = 22.5L × ₹10 = 225 lakhs.
        ↓   share   Face ↓ ₹10
   Buy Back)

30/04/X CRR A/c Dr   225
        To Bonus Shares   225

     Bonus Shares   225
           To Eq Sh. Cap   225

Balance Sheet of KG Limited (after BB & Bonus shares)

Particulars	Notes	₹ (in lakhs)
Equity & Liab		
Shareholder's funds		
A. Share Capital	1	1125
B. Reserves & Surplus	2	436
Non- Curr Liab		
Long term Borrowings		750
Curr Liab		
Trade payables		745
Other Curr Liab		195
Total		3251
Asset		
Non-current Assets		
A. Property, Plant & Equipment		2026
B. Non- Current Investments	3	–

Current Assets

A.	Inventories		600
B.	Trade re'ables		260
C.	Cash & Cash equivalents	4	365
			3251

Notes to A/c's

① Sh. Cap

Authorised, Issued & Subscribed Capital

Eq Sh. Cap	1200	
less: Buy Back	(300)	
Add: Bonus Shares	(225)	1125

② Res. & Surplus

ⓐ Sec. Prem	175	
less: Prem on BB	(150)	25
ⓑ Gen. Res	265	
less: Trf to CRR	(265)	-
ⓒ CRR	200	
Add: Trf from G-R	265	
Add: Trf from PLL	35	
less: Bonus Shares	(225)	275
ⓓ Profit or loss	170	
less: Trf to CRR	(35)	
Add: Gain on sale of Invst	1	136
		436

③ Non Curr Invst   74

    less: Sold   (74)   →   -

④ CCE   740

    Add: Invst Sold   75

    less: Buy Back   (450)   →   365

Ques 5 (LDR)

I] Cancell^n of Invst in Own Deb

Deb (liab) A/c Dr	2.2 lakhs	
To Invst in Own Deb	2 lakhs	
To Profit on cancell^n	(0.2 lakhs)	
(Cap. Reserve)		

Extra Itd

Liab	Asset	
Deb Issue 2.2 lakhs	Invst in	2 lakhs
(Face value)	Own Deb	
	(Cost)	

II] ESOP (Employee stock option plan)

C Co. promises to give employee shares for free/@ a lower price, if employee stays with the company for certain years)

(Total shares promised = 1,00,000, Mkt price = ₹30, Exercise price = ₹20 50000 shares subscribed as of now).

Bank A/c Dr	10 L	(50000 shares x ₹20)	
ESOP liab A/c Dr	5L	(50000 shares x ₹10)	face value
To ESC	5L	(50000 shares x ₹10)	
To Sec Prem	10L	(50000 shares x ₹20)	Sec. Prem

— Reverse

III] Redemption of Pref

```
Pref Sh. Cap      A/c  Dr      20
Prem on Redemptⁿ  A/c  Dr      2
      To  Pref Sh. Holders         22


Pref Sh. holder  A/c  Dr  22
      To  Bank A/c          22


Sec. Prem                   2
      To Prem on Redemptⁿ   2


Revenue Reserve        20          }  @ face value
      To CRR            20
```

IV] Buy Back of Eq. Shares

```
Eq Sh. Cap A/c  Dr              30L      (3L × 10)
Prem on BB A/c  Dr              60L      (3L × 20)
      To Eq. Sh. Bought Back A/c  90L    (3L × 30)


Eq. Sh. B.B A/c  Dr  90L
      To CIB  A/c       90L


Sec. Prem A/c  Dr      60
      To Prem on BB    60
```

Rev. Res.   30   } face value
~~To~~ CRR   30

Particulars	Notes	₹ (in lakh)
Equity & Liab		
Shareholder's funds		
A. Share Capital	1	75
B. Reserves & Surplus	2	66.2
Non- Curr Liab		
Long team Borrowings	3	1.8
Curr Liab		
Trade payables	4	65
Total		208
Assets		
Non-current Assets		
A. Property, Plant & Equip		50
B. Non- curr Invst	5	118
Current Assets		
A. Cash & Cash Equivalents	6	40
Total		208

Notes to A/c's

① Share Cap

Authorised, Issued & Subscribed

Eq. Sh. Cap	100	
Add: Shares issued in ESOP	5	
less: Buy Back	(30L)	75
Pref Sh. Cap	20	
less: Redemption	(20)	NIL

② Reserves & Surplus

a) Capital Reserve	8	
Add: Profit on cancel^n	0.2	8.2
ⓑ Rev. Reserve	50	
less: Trf to CRR (Pref)	(20)	
less: ——"—— (Eq)	(30)	NIL
ⓒ Sec Prem	60	
Add: Prem on ESOP	10	
less: Prem on redempt^n	(2)	
less: ——"—— Buy Back	(60)	8
ⓓ C.R.R	-	
Add: Trf from R.R (Pref)	20	
Add: ——"—— (Eq)	30	50
		66.2

③ Long term Borr.

10% Deb	4	
less: Deb cancel	(2.2)	1.8

④ Trade payable	70	
less: ESOP liab	(5)	65
⑤ Non- Curr Invst	120	
less. Dep carried	(2)	118
⑥ Cash & Cash Eq.	142	
Add: ESOP	10	
less: Redemptⁿ (Pref)	(22)	
less: Buy Back (Eq)	(90)	40

Ques 6

1) Investment sold

Bank A/c Dr	25000	
To Investment		24000
To Profit & loss		(1000)

2) Bank loan

Bank A/c Dr	16000	
To Bank loan A/c		16000

3) Pref – Redemptⁿ

Pref Sh. Cap A/c Dr	20000	
Prem on Pref Dr	2000	
To PSH A/c		22000

PSH   A/c Dr.   22000
  To Bank   22000

Sec. Prem   2000
  To Prem on Pref Redempt" 2000

·G·L   20000
  To CRR   20000

④ Eq BB   (6400 × 25%) = 1600 × 20 $\begin{cases} \text{Fu 10 } 16000 \\ \text{c·P 10 } 16000 \end{cases}$

ESC   A/c Dr.   16000
Prem on BB   16000
  To Eq Sh. BB   32000

Eq Sh. BB   32000
  To Bank   32000

                                    Prem on Pref
★   ↓
Sec. Prem A/c Dr.   4400   (6400 - 2000)
Gen· Res A/c Dr.   ⟨11600⟩
       To Prem on BB   16000

GR   16000
  To CRR   16000

Ques 7 (LOR)

I] Sale of Invst

Bank A/c	Dr	80000
Profit/loss (loss)	Dr	(20000)
To Invst A/c		100000

II] Deb Issue

Bank A/c	Dr	66000
To 10% Deb		60000
To Sec. Prem		6000

III] Buy Back Exp

Buy Back Exp	Dr	2000
To CIB		2000

P/L A/c	Dr	2000
To Buy Back Exp		2000

IV] Eq. Shares Buy Back $(60000 \times 25\%) = 15000$ — Fv 10 , S.P 5

a)

ESC A/c	Dr	150000
Prem on B.B	Dr	75000
To Eq. Sh. B.B A/c		225000

b)

Eq. Sh. BB A/c	Dr	225000
To CIB A/c		225000

c) Sec. Prem A/c Dr. 75000
        To Prem on B.B.   75000   } we have sufficient Balance in
                                      Sec. Prem → Opn 70000
                                          (+) Deb Prem 6000 |76000|

d) General Res A/c Dr. 43000 ⟶   G.R opn 63000
    P/L   A/c   Dr 107000 (B/f)   Bal to be   (20000)
         To CRR   150000   maintained ————
                                        Available   43000
                                         Gen. Res ————

Note: whenever company makes a fresh issue of Eq or Pref Shares for the purpose of B.B., then CRR creation to the extent of New Issue is NOT required.

Debenture issue is not to be considered on the above concept.

II) Dr.   Bank A/c   Cr.

To bal b/d	83000	By Buy Back Exp	2000
To Invst (Sale)	80000	By Eq. Sh. B.B.	225000
To 10% Deb	60000		
To Sec. Prem	6000	By bal c/d	2000

Q8 (LOR)

Flow of Ques.

① Issue Deb
② Issue Pref
③ Sale Invct   } J-E
④ B.B - Eq
⑤ Bonus
⑥ Bls.

Rev. Rese   5L
Bal to be   (2L)
maintained   ___
Available for 3L
     B.B

Journal Entries

① Issue of Deb

CIB A/c Dr	360000	(3000 Deb × ₹120)
To 14% Deb	300000	(@FV)
To Sec. Prem	60000	

② Issue of Pref

CIB A/c Dr	250000	(2500 Pref × 100)
To 10% Pref Sh. Cap	250000	

③ Sale of Invct

CIB A/c Dr	150000
To Invct	100000
To P/L A/c (Profit)	50000

④ Buy Back → Eq (Face value ₹20) $\left(\frac{50L}{20}\right)$ = 250000 × 25% = 62500 shares
shares

@ ₹36

FV 20   S.P 16

ⓐ ESC   A/c   Dr   1250000   (62500 × 20)
Prem on BB   Dr   10,00,000   (62500 × 16)
      To Eq. Sh. B·B A/c   22,50,000

ⓑ Eq. Sh. BB A/c   Dr   22,50,000
      To C/B   A/c   22,50,000

ⓒ Sec. Prem A/c Dr   10,00,000
      To Prem on BB A/c   10,00,000

Imp
ⓓ R·R A/c Dr 3L   Rev· Reserve A/c Dr 300000
PIL A/c Dr 9·5L   PIL A/c   Dr   700000
   TO CRR 1250000   To CRR   10,00,000

Eq sh. Cap (Face value)
12,50,000

Fresh issue   No. Fresh issue
250000   10,00,000
↓↓   ↓↓
NO trf to CRR reqd.   CRR trf reqd.

⑤ Bonus (250000 (-)62500) = 187500 shares × $\frac{3}{15}$ = 37500 shares (F·V = 20)

CRR A/c Dr 750000
   To Bonus Shares 750000
Bonus shares Dr. 750000
   To ESC   750000

Balance sheet (After Buy Back & Bonus shares)

I] Eq & Liab		
a. Share Cap	1	5750000
b. Reserves & Surplus	2	2710000
Non Current Liab		
Debentures	3	1550000
Curr Liab		
Curr Liab & Prov		550000
		1,05,60,000
II] Assets		
Non-current Assets		
PPE		1,00,75,000
Current Assets		
Invst	4	200000
Inventory		200000
Cash & Bank Balance	5	85000
		1,05,60,000

① Notes to A/c's

Eq Sh. Cap	50,00,000	
less: BB	(1250000)	
(+) Bonus	750000	4500000
Pref Sh. Cap	1000000	
(+) New Issue	250000	1250000
		5750000

② R&S

a) Cap. Ruse		100000
b) Sec. Prem	1200000	
Add: Prem on Deb Issue	60000	
less: Prem on BB	(1000000)	260000
c) Rev. Res	500000	
less: trf to CRR	(300000)	200000
d) P/L	2000000	
Add: Profit on Sale	50000	
less: Trf to (RP)	(700000)	1350000
e) Div. Eq. Fund		550000
f) CRR		
Creation thru RP & P/L	1000000	
less: Bonus	(750000)	250000
		27,10,000

③ Deb

12% Deb	1250000	
14% Deb	300000	1550000

④ Investments	300000	
Less: Sold	(100000)	200000
⑤ CCE	1575000	
(+) Deb Issued	360000	
(+) Pref Issued	250000	
(+) Invest sold	150000	
(-) Eq. Sh. BB	(2250000)	85000

Imp

3] <u>Calculation of Maximum No. of shares to be bought back</u>

↓

3 Test conditions

~~₹~~ " No. of shares "

i) <u>Shares outstanding test</u>

Total No. of eq. shares outstanding × 25%.

ii) <u>Resource test</u>

$$\frac{25\% \text{ of Paid up Cap} + \text{Free Reserves}}{\text{Buy Back Price}}$$

iii) <u>Debt / Equity Ratio Test</u>

Debt /Equity ratio post Buy Back should not **exceed** the ratio of 2:1

ⓐ Compute Total Debt (Secured + Unsecured + Long term + Short term)
ⓑ Minimum Eq to be maintained Post Buy Back (Total Debt ÷ 2)
ⓒ Present Eq. Share Cap (+) Free Reserves
ⓓ Maximum Amount Available for Buy Back (By simultaneous equation)
ⓔ No. of shares that can be bought back $\left(\dfrac{\text{Max Amt available} \rightarrow \text{step d}}{\text{Buy Back Price}}\right)$

Note:

① The maximum no. of shares that can be bought back is the **LEAST** of no. of shares in the above 3 test.

Eg: <u>Debt/Equity ratio logic</u> (2:1) → minimum

(₹ in crores)

$D/E = 2:1$

$\underset{2}{\overset{\downarrow}{}} \quad \underset{1}{\overset{\downarrow}{}}$

Ak Htd B/s

Esc	150	<u>Assets</u>	500
Free Reserve	50		
loan funds	300		

Debt   300

Min. Eq.   150   (BB ke baad equity should not fall below 150)
(Post BB)   150 se zyada hua toh no problem)

Eq means = Paid up Cap (+) Free Reserves.

<u>Case ①</u> <u>Post BB Equity is 120</u> ⟶ Nohi cholbe. ☹

$\dfrac{Debt}{Eq} = \dfrac{300}{120} = 2.5:1$

<u>Case ②</u> <u>Post BB</u> Equity is 180 ⟶ Cholbe 😊

$\dfrac{Debt}{Eq} = \dfrac{300}{180} = 1.67:1$

i) Debt = 300

ii) Min Equity to be maintained = (150) $(300/2)$

iii) Present Equity = 200
_____
BB Funds available   ~~50~~

Iss 50 mein se
BB bhi karna hai &
CRR mein trf bhi karna hai

Q10 Calculation of maximum No. of shares that can be bought back

3 Tests

i) Shares outstanding test

Total No. of shares outstanding × 25%

3,00,000 shares × 25% = **75000 shares**

ii) Resource Test

$\dfrac{(\text{Paid up Capital} + \text{Free Reserves}) \times 25\%}{\text{Buy Back Price}}$

$\dfrac{(30,00,000 + 32,50,000 + 600000 + 430000) \times 25\%}{\text{Buy Back Price} \rightarrow ₹30}$ = 18,20,000

ESC   G.R   S.P   P/L   Buy Back → ₹30
                                                            Price

= **60,666 shares**

Extra

iii) Debt/Equity Ratio Test (2:1)

ⓐ Total Debt		42,00,000
ⓑ Minimum Eq to be maintained Post Buy Back $\left(\frac{42L}{2}\right)$		21,00,000
ⓒ Present Eq (Paid up Cap + FR)		72,80,000
ⓓ Max Amt Available for B·B (Refer wn Below) = y		38,85,000
ⓔ Max. No. of shares that can be bought Back $\left(\frac{38,85,000}{30}\right)$		1,29,500 shares.

$$\left(\frac{\text{Amt in step d}}{\text{BB Price}}\right)$$

Note: In ques only debt/Eq. test was asked

Let the Amt trf to CRR be x

Let Maximum Amount Available for BB be y.

1) Present Equity − x − y = Minimum Equity (Post BB)

$$72,80,000 - x - y = 21,00,000 \longrightarrow ⓘ$$

2) $\dfrac{y}{\text{BB Price}}$ (×) Face value = x

$$\frac{y}{30} \ (\times) \ 10 = x$$

$y = 3x$ _____ (ii)

By solving simultaneous equation (i) & (ii)

$y = 3x$

$72,80,000 \ (-) \ x \ (-) \ 3x \ = \ 21,00,000$

$7280,000 \ (-) \ 4x \ = \ 21,00,000$

$7280000 - 2100000 = 4x$

$5180000 = 4x$

$\therefore x = \dfrac{5180000}{4}$

$\boxed{x \quad = \quad 12,95,000} \quad \longrightarrow$ Amt to be trf to CRR

$y = 3x$
$\quad = 3 \times 1295000$
$\quad = \boxed{38,65,000} \quad \longrightarrow$ Max Amt Available for B.B.

Shortcut

i) Present Eq   72,80,000
ii) Min Eq   21,00,000 ____   ⟶ BB — 30
                                  51,80,000 ◄────   +
                                  ÷   40   CRR 10 (Face value)
                                                         ──
  Max No. of   129500   40
  Shares to be bought Back.   shares

Q12 (LDR)

I] Calculation of Max. No. of shares that can be bought back

i) Shares outstanding test

Total No. of shares outstanding x 25%.

125000 x 25%.

31250 shares.

ii) Resource Test

$$\frac{(Paidup\ Cap\ (+)\ Free\ Reserves) \times 25\%.}{BB\ Price}$$

$$= \left(1250000 + 250000 + 125000 + 15,00,000\right) \times 25\% = \frac{781250}{20}$$

Round off to lower digit
in case of shares. = **39062 shares**

iii) Debt / Equity Ratio Test (Post B.B it should not exceed 2:1)

ⓐ Total Debt (Long term Borr + Other curr liab) 2875000 + 1650000	4525000
ⓑ Minimum Eq Post B.B $\left(\div \frac{Total\ Debt}{2}\right)$	2262500
ⓒ Present Eq (Paidup Cap + Free Reserves)	31,25,000
ⓓ Max. Amt Available for B.B (Refer wN)	575000

(e) Max No. of shares that can be bought back $\left(\dfrac{575000}{20}\right)$ **28750 shares**

The Co. qualifies all test for BB & came to the conclusion that it can B.B maximum 28750 shares (least of above 3 test). However co. wants to BB only 25000 shares ∴ the BB is within the prov of companies Act, 2013.

Soln let the Amt trf to CRR be x

max. Amt available for B.B be y.

$3125000 - x - y = 2262500 \longrightarrow ①$

$\dfrac{y}{20} \times 10 = x$

$y = 2x \longrightarrow ②$

$3125000 - x - 2x = 2262500$

$862500 = 3x$

$\therefore x = \dfrac{862500}{3}$

$= \boxed{287500} \longleftarrow$ Amt trf to CRR

$y = 2x$

$= 2 \times 287500$

$= \boxed{575000} \longrightarrow$ Max Amt avail for BB

Shortcut

Present Eq	3125000
Min Eq	2262500
	862500
÷ BB Price + FV	30
	28750 shares

→ BB
→ CRR

II] Journal Entries   (for BB of 25000 shares @ ₹ 20)

(i)
ESC	Dr	250000	
Prem on BB	Dr.	250000	
To Eq. Sh. BB			500000

ii)
Eq Sh. B.B	Dr	500000	
To CIB			500000

iii)
Sec. Prem	Dr	250000	
To Prem on BB			250000

iv)
Rev Reserve		250000	
TO CRR			250000

Balance sheet of M/S Competent ltd

Eq & Liab		
SHF		
(a) SC	①	10,00,000
(b) R&S	②	16,25,000
NCL		
Long term Borr		2875000
CL		
Other Curr liab		1650000
		7150000
Assets		
NCA		
PPE		4650000

CA

Other Curr Asset	③	2500000
		7150000

Notes to A/Cs

① Share Cap

ESC	1250000	
Less: BB	(250000) →	10,00,000

② R&S

ⓐ Sec· Prem	250000	
Less: Prem on BB	(200000) →	Nil
ⓑ Profit & loss		125000
ⓒ R·R	1500000	
Less: Trf to CRR	(250000) →	1250000
ⓓ CRR		250000
		1625000

③ Other Curr Asset

	30,00,000	
(-) Payment for BB	(500000) →	2500000

Q13

Calculation of Max No. of shares that can be bought back

i) **shares outstanding test** $\left(\dfrac{400000 \times 25\%}{\text{shares}}\right)$ **100000 shares.**

ii) **Resource Test**

$\dfrac{(\text{Paidup Cap (+) Free Reserves}) \times 25\%}{\text{BB Price}}$

$\dfrac{(40,00,000 + 48,00,000 + 10,00,000 + 18,00,000) \times 25\%}{₹ 25}$ $\dfrac{29,00,000}{₹25}$

= **1,16,000 shares**

iii) **Debt / Equity Ratio Test** #

ⓐ Total Debt (Sec (+) Unsec (+) Curr liab)	1,20,00,000
ⓑ Min. Eq Post BB (1.2cr /2)	60,00,000
ⓒ Present Equity (Paid up + F·R)	1,16,00,000
ⓓ Max. Amt Available for B·B (Refer WN)	40,00,000
ⓔ Max No. of shares that can be bought Back $\left(\dfrac{40,00,000}{25}\right)$	**1,60,000 shares**

WN

let the Amt tf to CRR be x

let Max. Amt Avail for BB be Y

$1,16,00,000 - x - y = 60,00,000 \longrightarrow$ ①

$$\frac{y}{25} \times 10 = x$$

$$y = 2.5 \; x \longrightarrow \text{(ii)}$$

$$1,16,00,000 - x - 2.5x = 60,00,000$$

$$56,00,000 = 3.5 x$$

$$\therefore x = 16,00,000 \rightarrow \text{Amt trf to CRR}$$

$$Y = 2.5x$$
$$= 2.5 \times 16,00,000$$
$$= 40,00,000 \longrightarrow \text{Max Amt available for BB.}$$

Conclusion: least of above 3 test is 1,00,000 shares
∴ BB of 80,000 shares by Co. is within the prov. of Co. Act, 2013

Note: Curr liab is considered to be part of total debt. Alternatively we can also solve by not considering it.

Q14 (LQR)

Maximum No. of shares that can be bought back. (3 Test)

i) Shares outstanding test   [Same in All 3 cases]

33 crore shares × 25%.   8.25 crore shares.

ii) Resource Test   [Same in All 3 cases]

$$\frac{(\text{Paid up Cap} + \text{Free Reserves}) \times 25\%.}{\text{BB Price}}$$

$$\frac{(330 + 240 + 90 + 90) \times 25\%.}{₹30} = ₹187.5\,cr = \text{6.25 crore shares}$$

iii) Debt/Equity Ratio Test

Particulars	Case I	Case II	Case III
a) Total Debt (loan funds)	₹1800	₹1200	₹1500
b) Min Eq Post BB (Total Debt ÷ 2)	900	600	750
c) Present Eq (Paid up Cap + F.R)	750	750	750
d) Max. Amount Available for B.B.	—	112.5 (WN)	—

loan funds

Case I: (NO BB is possible as present eq is already lower than min. eq.)

Case III: (No BB possible as present eq is same as min. eq.)

e) Max No. of shares that can be bought back $\left(\dfrac{\text{Max Amt}}{\text{B.B Price}}\right)$

$$\text{Case II: } 3.75\,cr\ shares \left(\frac{112.5}{30}\right)$$

con let the Amt trf to CRR be x

let the Max Amt available for BB be y.

$750 - x - y = 600$ —————→ i)

$\dfrac{4}{30} \times 10 = x$

$y = 3x$ —————————————→ ii)

$750 - x - 3x = 600$

$150 = 4x$

$\therefore x = 37.5$ ——→ **Amt trf to CRR**

$y = 3x$

3×37.5

$= 112.5$ ————→ **Max Amt available for B.B.**

Shortcut

Present Eq	750	
Min Eq	600	→ BB 30
	150	→ CRR 10
÷	40	
BB Max No. of share	3.75 cr shares	

Note: Under Case I & III, the company does not qualify for B.B of shares as per the provisions of Co. Act, 2013.

In case II, Max No. of shares that can be bought back is least of above 3 Test i.e. 3·75 cr shares.

Journal entries (under case II)

1) ESC   Dr   37·5   (3·75 ×10)
   Prem on B·B   Dr   75   (3·75 ×20)
        TO Eq Sh. B.B Alc   112·5

   Eq sh. B·B. Alc   112·5
        TO CUB   112·5

   Sec Prem Alc Dr   75
        TO Prem on B·B.   75

   Gen. Res Alc Dr 37·5
        TO CRR   37·5

Q16 (LOR)^2

I] Redemp of Pref

a) PSC   240
    Prem on Redempt^n 24
       To PSH   264

(b)   PSH   264
      To CIB   264

(c)   Sec. Prem   24
      To Prem on Redempt^n 24

(d)   Gen. Reserve   240   } @ Fair value.
      To CRR   240

⁂ Revised Values of Free Reserves (Post Pref Redempt^n)

1) Gen. Reserve = 625 – 240 = 385
2) Sec. Prem = 52 – 24   =   28
3) Profit & loss   =   148

Calculation of Max No. of shares that can be bought back

1) Shares outstanding test

78 lakh shares x 25%.   ==19.5 lakh shares==

2) Resource test

$$\frac{(\text{Paid up Cap + Free Reserves}) \times 25\%}{\text{BB Price}} = (780 + 385 + 28 + 148) \times 25\%$$

$$= \frac{335 \cdot 25}{30}$$

$$= \quad ==11.175 \text{ lakh shares}==$$

3) Debt/Eq. Ratio Test

a) Total Debt (268 + 36 + 395)	699
b) Min. Eq Post BB	349.5
c) Present Eq (780 + 385 + 28 + 148)	1341
d) Max Amt available for BB (WN)	743.625
e) Max No. of shares that can be bought Back	==24.7875 lakh shares==

$$\left(\frac{\text{Max Amt}}{\text{BB Price}}\right) \left(\frac{743.625}{30}\right)$$

WN   let the Amt trf to CRR be x
let the Max Amt available for BB be y.

$$1341 - x - y = 349.5 \longrightarrow \text{(i)}$$

$$\frac{y}{30} \times 10 = x \quad \therefore \quad y = 3x \longrightarrow \text{(ii)}$$

$$1341 - x - 3x = 349.5$$
$$991.5 = 4x$$
$$\therefore x = 247.875 \longrightarrow \text{Amt t/f to CRR}$$

$$y = 3x$$
$$= 3 \times 247.875$$
$$= 743.625 \longrightarrow \text{Max Amt available for BB}$$

shortcut

Present Eq	1341
Min Eq	349.5
	991.5 → BB 30, CRR 10
÷	40
	24.7875 lakh shares.

Max. No. of shares that can be bought back is least of above 3 test i.e. 11.175 lakh shares.

J.E. B.B of Eq

a) ESC   Dr.   111.75   (11.175 lakh shares x 10)
    Prem on BB Dr.   223.5   (———— x 20)
         To Eq Sh. B.B A/c   335.25

b) Eq Sh. B.B A/c Dr. 335.25
         To C/B   A/c   335.25

(c) Sec. Prem A/c Dr. 28 ⟶ only this much Bal was left

Gen. Reserve A/c Dr. (195·5)

     To Prem on BB   223·5

(d) Gen Reserve   111·75

     To CRR   111·75

III] Deb cancel

Deb liab A/c Dr.   75L   (@ Face value)

    To Invst in Own Deb   60L   (@ cost)

    To Profit on cancelln   (15L)
      (Cap. Res)

IV] Bonus $\left(\dfrac{78 \text{ lakh shares} (\rightarrow 11.175 \text{ shares})}{\underset{BB}{\downarrow}}\right) = 66.825 \text{ lakh shares} \times \dfrac{1}{5}$

$= 13.365 \text{ lakh shares (Bonus)}$
@ Face value.

CRR   133·65

    To Bonus shares   133·65

Bonus shares   133·65

    To ESC   133·65
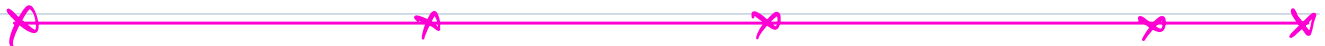
EPS (Earnings per : $\dfrac{\text{Total Profit}}{\text{No. of shares}} = \dfrac{10L}{1L} = ₹10$ share) per share.

10k shares BB

1. INTRODUCTION

$= \dfrac{10L}{90k \text{ shares}} = ₹11.11$ per share.

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 or other specified securities.

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—

BB virtual Pvt ltd

90K — 1L

AK 75k Shares. = 83.33%

BB Sir/ Arjun Sir/ SK Sir ↓ 25k Shares (10k shares BB) = 15k Shares = 16.67%

80% Daksh

BB virtual
AK BB SK AC AM
20% 20% 20% 20% 20%

(a)   the buy-back is authorised by its articles;

(b)   a special resolution has been passed in general meeting of the company authorising the buy-back;

However, the above provisions do not apply where the buy-back is ten percent or less of the paid-up equity capital + free reserves and is authorized by a board resolution passed at a duly convened meeting of the directors. Hence, 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 of association of the company and by a special resolution of its members passed at a general meeting of the company.

(c)   the buy-back must be equal or less than twenty-five per cent of the total paid-up capital and free reserves of the company: (Resource Test)

(d)   Further, the buy-back of shares in any financial year must not exceed 25% of its total paid-up capital and free reserves: (Share Outstanding Test)

(e)   the ratio of the debt owed by the company (both secured and unsecured) after such buy-back is not more than twice the total of its paid-up capital and its free reserves: (Debt-Equity Ratio Test)

Note: Central Government may prescribe a higher ratio of the debt than that specified under this clause for a class or classes of companies. Debt here should include both long-term debt as well as short term debt.

(f)   all the shares or other specified securities for buy-back are fully paid-up;

(g)   the buy-back of the shares or other specified securities listed on any recognised stock exchange is in accordance with the regulations made by the Securities and Exchange Board of India in this behalf;

(h)   the buy-back in respect of shares or other specified securities other than those specified in clause (f) is in accordance with the guidelines as may be prescribed.

Provided that no offer of the buy-back under this sub section shall be made within a period of one year reckoned from the date of closure of a previous offer of buy-back if any. This means that <mark>there cannot be more than one buy-back in one year.</mark>

(2) The notice of meeting at which special resolution is supposed to be passed must be accompanied by an explanatory statement stating-

    (a)   a full and complete disclosure of all material facts;

    (b)   the necessity of the buy-back;

    (c)   the class of security intended to be purchased under the buy-back;

    (d)   the amount to be invested under the buy-back;

    (e)   the time limit for completion of the buy-back.

(3) 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.

(4) The buy-back may be—

    (a)   from the existing security holders on a proportionate basis; or

    (b)   from the open market; or

    (c)   by purchasing the securities issued to employees of the company pursuant to a scheme of stock option or sweat equity.

(5) Where a company has passed a special resolution under clause (b) of Sub-section (2) to buy-back its own shares or other securities under this section, it shall, before making such buy-back, file with the Registrar and the Securities and Exchange Board of India a declaration of solvency in the form as may be prescribed and verified by an affidavit to the effect that the Board of Directors has made a full inquiry into the affairs of the company as a result of which they have formed an opinion that it is capable of meeting its liabilities and will not be rendered insolvent within a period of one year of the date of declaration adopted by the Board of Directors. It must be signed by at least two directors of the company, one of whom shall be the managing director, if any:

Note: No declaration of solvency shall be filed with the Securities and Exchange Board of India by a company whose shares are not listed on any recognised stock exchange.

(6) Where a company buys-back its own securities, it shall extinguish and physically destroy the securities so bought-back within seven days of the last date of completion of buy-back.

(7) Where a company completes a buy-back of its shares or other specified securities under this section, it shall not make further issue of same kind of shares (including allotment of further shares under clause (a) of Sub-section (1) of Section (62) or other specified securities within a period of six months except by way of bonus issue or in the discharge of subsisting obligations such as conversion of warrants, stock option scheme, sweat equity or conversion of preference shares or debentures into equity shares.

(8) Where a company buy-back its securities under this section, it shall maintain a register of the securities so bought, the consideration paid for the securities bought-back, the date of cancellation of securities, the date of extinguishing and physically destroying of securities and such other particulars as may be prescribed.

(9) A company shall, after the completion of the buy-back under this section, file with the Registrar and the Securities and Exchange Board of India, a return containing such particulars relating to the buy-back within thirty days of such completion, as may be prescribed, provided that no return shall be filed with the Securities and Exchange Board of India by a company whose shares are not listed on any recognised stock exchange.

(10) If a company makes default in complying with the provisions of this section or any regulations made by SEBI in this regard, the company may be punishable with a fine which shall not be less than Rs One Lakh but which may extend to three lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for upto 3 years or with a fine of not less than one lakh rupees but which may extend to three lakh rupees or with both.

(11) Section 69 (1) states that where a company purchases its own shares out of the free reserves or securities premium account, a sum equal to the nominal value of shares so purchased shall be transferred to the Capital Redemption Reserve Account

X ——————— Y ——————— P