Buy Back – Summary

1) Source of Buy Back of Equity & Redemption of Pref. Shares :-

- Free Reserves (GR & P&L)
- Security Premium
- Fresh issue Proceeds of any Securities

2) Securities Premium Generated out of :-

- issue of equity (or) Pref. Capital → Can be Utilized
- issue of Debenture → Can-not be Utilized *

3) Important Working For Buy Back :-

Total no. of Shares o/s —— xxx

No. of Buy Back Shares @ % —— xxx

Buy Back price Per share = x

40 10/-

Total Amt. of Buy Back —— xxx

Face Value OF BB 2 lacs.

1st

Out of 1/-

Free issue proceeds

1/- **2nd**

Remaining Bal. out OF Free Reserves & SP

↓

Create **CRR** equal to this amt Out of :-

- GR (1st Priority)
- P&L (2nd)
- SP (3rd)

Premium on BB

↓

W/off Out OF :-

a) SP (1st priority)

b) GR (2nd)

c) P&L (3rd)

4) Journal Entries

On Announcement of Buyback	Equity Share Capital A/c 10 Dr. (Face Value) Premium Payable on Buy-Back A/c Dr. 30 10 To Equity Shares Buy-back A/c (Buyback Value)
On Payment to Shareholders	Equity Shares Buy-back A/c Dr. 40 To Bank A/c 40
Writing off Premium on Buy-back	Security Premium A/c Dr. (1^{st} Priority) Revenue Reserves Dr. (Gen. Reserve and P&L) To Premium Payable on Buyback a/c
Transfer to CRR (Equal to Nominal Value)	Revenue Reserve Dr. (Gen. Reserve and P&L A/c) Security Premium A/c Dr. To Capital Redemption Reserve
On Fresh issue of other securities such as Pref. Shares	Bank A/c Dr. To Pref. Share Capital A/c FV To Security Premium A/c
On sale of Investment for the purpose of Buy-back	Bank A/c Dr. To Investment A/c (Gain or Loss on sale transfer to P&L A/c)
On Issue of Bonus Shares out of CRR and Other Free Res.	Capital Redemption Reserve Dr. (1^{st} Priority if available) Revenue Reserves Dr. (Gen. Res and P&L) & SP To Bonus Shares A/c Bonus Shares A/c Dr. FV To Equity Share Capital A/c

5) Other Important Points :-

(i) Sale of any Asset or Investment for BB means Using Free Reserves & SP Balance. Hence CRR to be Created.

(ii) Gain on Sale of any Asset transfer to P&L.

(iii) Utilization of CRR

- To issue Bonus shares → allowed
- Not allowed to pay Dividend (or) to w/off any Premium Paid

(iv) Buy Back Exp. such as Legal Charges, Fees shall always be transfer to P&L a/c (or) General Reserves.

(v) These are not Free Reserves :-
Capital Reserves, Revaluation Reserves, DRR, CRR & any other Statutory Reserve & Can never to Utilized to w/off premium (or) to Create CRR.

v) Bonus issue after Buy Back :-

- Bonus Shall be issued at Face Value always

- Bonus Shall be issued by Using Following Reserves :-

  CRR available (1st priority)
  Sec. Premium (2nd)
  GR (3rd)
  P&L a/c (4th)

- Final Equity Capital after BuyBack & Bonus :-

Original Equity (as per B/s given) -	XXX
(−) Face Value of BB	(XX)
(+) Face Value of Bonus	XX

6) Maximum Permissible BuyBack :-

Lower of :-

Share o/s Test

Total Eq. Shares issued × 25%

No. of BB

Resource Test. (Funding Test)

$$\frac{\text{Total Equity Value} \times 25\%}{\text{BB price } 40}$$

Note:- Total Equity Value

ESC	xxx
PSC	xxx
FR	xxx
SP	xxx
1,15,00,000	Total Equity

40/-

Debt Equity Test.

Debt equity Ratio after BB must not exceed 2 : 1

Current Equity before BB − BB Effect = Minimum Equity after BB

a) Current Equity before BB ⇒ Total paid up Capital (ESC + PSC) (+) FR (+) SP

b) Minimum Equity after BB $\Rightarrow \dfrac{\text{Debt}}{2}$

Debt = LT Borrowings (+) Short Term Borrowings (including Current maturity of LT Loans)

Creditors / provisions / any other Liabilities are not Debt.

c) Buy Back Effect :-

Reduction in FV of Share Capital	xx
(+) W/off of Premium on BB out of FR/SP	xx
(+) Creation of CRR out of FR/SP	xx