1. BUY - BACK OF SECURITIES AND EQUITY SHARES WITH DIFFERENTIAL RIGHTS

NO. OF PROBLEMS IN 42e OF CA INTER: CLASSROOM - 5, ASSIGNMENT - 6

NO. OF PROBLEMS IN 41.5e OF CA INTER: CLASSROOM - 5, ASSIGNMENT - 6

NO. OF PROBLEMS IN 42.5(2e) OF CA INTER: CLASSROOM - 7, ASSIGNMENT – 5

MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC AND CA INTER

MODEL NO.	N-11	M-12	N-12	M-13	N-13	M-14	N-14	M-15	N-15	M-16	N-16	M-17	N-17	M-18 (O)	M-18 (N)	N-18 (N)	M-19 (N)
Problems	-	8	12	-	-	-	-	-	-	12	6	8	-	-	10	10	10
Theory	-	-	-	-	-	4	-	-	-	-	-	-	-	-	-	-	-

SIGNIFICANCE OF EACH PROBLEM COVERED IN THIS MATERIAL

Problem No. in this material	Problem No. in NEW SM	Problem No. in OLD SM	Problem No. in OLD PM	RTP	MTP	Previous Exams	Remarks
CR 1	-	-	-	-	N-19	-	
CR 2	PQ-1	-	9	M-19&N18	-	M-18	
CR 3	-	-	-	-	-	N-09	
CR 4	ILL-5	ILL-4	-	-	-	N-18	
CR 5	PQ-2	-	10	-	-	M-19	
CR 6	ILL-4	ILL-6	-	-	-	-	
CR 7	EX-1	-	-	-	-	-	
ASG 1	ILL-2	ILL-5	-	M-12	-	-	
ASG 2	ILL-1&3	-	-	-	-	-	
ASG 3	-	-	-	N-19	-	M-17	
ASG 4	-	-	-	-	M-19(N)&N18(N)	-	
ASG 5	PQ-3	-	-	-	-	N-18	

THEORY

Meaning of Buy-back of shares: The term Buy-back of shares implies the act of purchasing its own shares with an intention to cancel them by a company.

Objectives/Advantages of Buy-Back of shares:

a) To improve earnings per share.

b) To increase promoters holding as the shares which are bought back are cancelled.

c) To prevent unwelcome takeover bids

d) To support the share price during periods of sluggish or depressed market conditions

e) To pay surplus cash to shareholders when the company does not need it for business

f) To improve return on capital, return on net worth and to enhance the long term shareholders value

Three sources of funds for Buy-back:

As per Sec. 68 (1) a company may purchase its own shares or other specified securities out of -

1. Its free reserves; or

2. The securities premium account; or

3. The proceeds from the issue of any shares or other specified securities.

<u>**Note:**</u> 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.

The buy-back may be:

1. from the existing security holder on a proportionate basis; or
2. from the open market; or
3. By purchasing the securities issued to employees of the company pursuant to a scheme of stock option or sweat equity.

1. **CONDITIONS FOR BUY-BACK:** As per Sec 68 (2) Companies Act, 2013.

   a) The buy-back must be **authorized by the Articles**

   b) The buy-back should be made by passing **special resolution in the General Meeting** of shareholders but the same is not required when;

   The buy-back is **up-to 10%** of paid up equity capital + free reserves, the same **may be done** with the **authorization of the board resolution**.

   c) **No offer** of Buy-back must be made **within** a period of **365 days from the date of closure** of a previous offer of Buy-back if any.

   d) The **buy-back** of the shares **must not exceed 25% of total paid-up capital** and **free reserves.** (***Resource Test)***

   e) The **buy-back** of equity shares **in any financial year must not exceed 25% of its total paid-up equity capital** (***Share outstanding Test***)

   f) The **debt-equity ratio** must **not be more than 2:1 after such buy-back**. But central government may prescribe higher ratio (***Debt equity ratio test***)

   Here, Debt = Secured + Unsecured Debt and includes long term as well as short term

   Equity = Capital + Free Reserves

   Free Reserves = Free Reserves as per Sec 2(43) + Securities Premium as per Sec 52 (1).

   Equity = Equity & Preference share capital or paid up capital.

   Therefore, maximum number of shares to be bought back as per companies Act, 2013= Least of the above three tests.

   g) All the shares or other specified securities for buy-back **must be fully paid-up**.

2. The company must file **solvency declaration** with the Registrar and SEBI (in case of listed companies) in the form of an affidavit signed by at least two directors of the company stating that opinion the company is capable of meeting its liabilities and will not render insolvent within a period of one- year from the date of declaration adopted by the Board.
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. **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 or other specified securities **within a period of 6 months except by way of bonus issue or** in the discharge of subsisting obligations such as **conversion of warrants, stock option schemes,** sweat equity or conversion of preference shares or debentures into equity shares.

   SEBI (Buy-back of securities) (Amendment) Regulations, 2013, applicable to listed companies or company who intends to get listed, in addition to the provisions of Companies Act 2013:

5. No offer of Buy-back for 15% or more of the paid up capital and free reserves of the company shall be made from the **open market**.
6. The company shall ensure that at least 50% of the amount earmarked for buy-back is utilized for buying back shares or other specified securities.
7. Premium (excess of buy-back price over the par value) paid on buy-back should be adjusted against free reserves and/or securities premium account.

Revaluation reserve represents unrealized profit and hence it cannot be used for buy-back of securities.

Some important terms:

Specified securities: It includes employees' stock option or other securities as may be notified by the central government from time to time.

Free Reserves: As per sec. 2(43) of the companies act 2013, free reserves means such reserves which, as per the latest audited balance sheet of a company, are available for distribution as dividend. Provided that -

1. Any amount representing unrealized gains, notional gains or revaluation of assets, whether shown as a reserve or otherwise, or
2. Any change in carrying amount of an asset or of a liability recognized in equity, including surplus in profit and loss account on measurement of the asset or the liability at fair value, shall not be treated as free reserves.

Transfer to CRR:

- As per sec. 69 (1) Where a company **purchases its own shares out of free reserves or securities premium account,** then a sum equal to the **nominal value of the shares so purchased shall be transferred to the capital redemption reserve account.**
- Utilization of CRR is restricted to issuance of fully paid-up bonus shares only.

  It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve.

Based on the above provisions the following equations can be obtained:

It is presumed that the buy back is out of free reserves or securities premium

Equation 1: Maximum permissible buy-back of equity = (Present equity - Nominal value of buy-back transfer to CRR) - Minimum equity to be maintained

Equation 2:

$$\frac{\text{Maximum buy - back}}{\text{offer price for buy back}} \text{X Nominal value} = \text{Nominal value of the shares bought back to be transferred to CRR.}$$

By solving the above two equations we get the value of Maximum permitted buy back of equity.

$$\text{Number of shares to be bought back} = \frac{\text{Maximum of permitted buy back of equity}}{\text{Buy back price}}$$

Accounting Entries:

The various journal entries to be passed on Buy-back are given as follows:

S. No.	Particulars	
1.	**To make partly paid Equity Shares Fully paid up:**	
	a) On making Final Call	
	Equity share final call A/c	Dr.
	To Equity Share Capital A/c	
	b) On Receipt of Final Call	
	Bank A/c	Dr.
	To Equity share final call A/c	
2.	**To realize investment to provide cash for Buy-back:**	
	Bank A/c	Dr.
	Profit and Loss A/c	Dr.
	To Investments A/c	
	To Profit and Loss A/c	
3.	**To issue fresh other kind of shares or securities A/c (Say preference shares)**	
	a) On receipt of Application Money	

	Bank A/c	Dr.
	To Pref. Share Application & Allotment A/c	
	b) On Allotment	
	i) If at par:	
	Pref. share application & Allotment A/c	Dr.
	To Pref. Share Capital A/c	
	ii) If at Premium	
	Pref. Share Application & Allotment A/c	Dr.
	To Pre. Share Capital A/c	
	To Securities Premium A/c	
	iii) If a Discount	
	Pref. Share Application & Allotment A/c	Dr.
	Discount on issue of Share A/c	Dr.
	To Preference Share Capital A/c	
4.	**To transfer Free Reserves to Capital Redemption Reserve Account to the extent the Buy-back is out of free reserves & securities premium:**	
	Revenue Reserve	Dr.
	Profit & Loss A/c	Dr.
	To Capital Redemption Reserve A/c	
	Tutorial Note: Capital Redemption Reserve can be utilized only for issuing fully paid bonus shares to members.	
5.	**To Make payment to Equity shareholders on Buy-back:** Equity shares Buyback A/c Dr. [With Amount due] To Bank A/c	
6.	**To make money due to equity shareholders on Buy-back:**	
	a) If the buy-back is at par	
	Equity Share Capital A/c	Dr. [With Nominal Value]
	To Equity Share Buyback A/c	
	b) If the buy-back is at premium	
	Equity Share Capital A/c	Dr. [With Nominal Value]
	Securities Premium A/c	Dr. [With Premium]
	To Equity Share Buyback A/c	[With Total]
	c) If the buy-back is at discount	
	Equity Share Capital A/c	Dr. [With Nominal Value]
	To Equity Share Buyback A/c	[With Net Amount]
	To Capital Reserve A/c	[With Discount]

EQUITY SHARES WITH DIFFERENTIAL RIGHTS

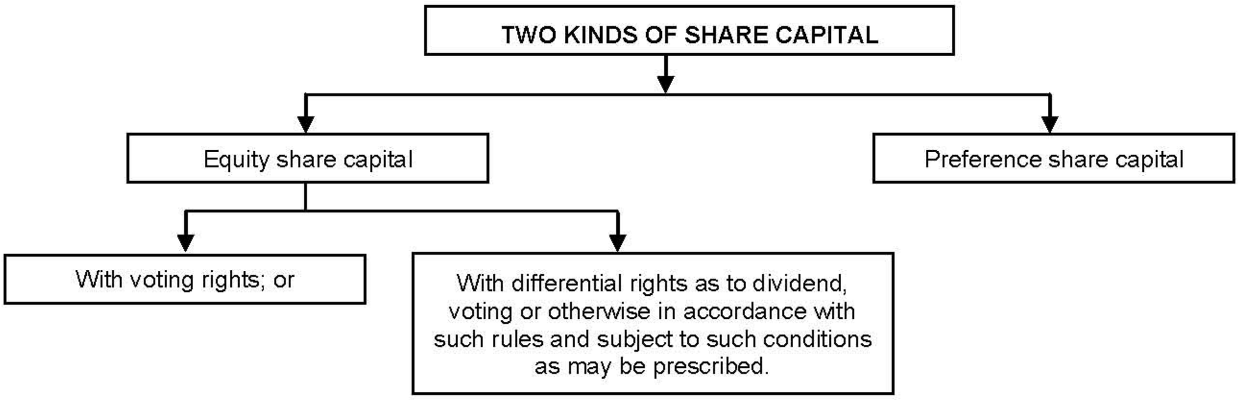
Section 43(a) of the Act defines equity share capital to include of two types viz.

a) With voting rights; or

b) With differential rights as to dividend, voting or otherwise in accordance with such rules as may be prescribed

It must be appreciated that preference shares are not issued with differential rights. It is only the equity shares, which are issued.

Thus new issues of share capital shall be only two kinds only, as depicted in the chart given below:-



1. **Equity shareholder voting rights:**
   a) Every member of a company limited by shares and holding equity share capital therein, shall have a right to vote on every resolution placed before the company; and
   b) His voting right on a poll shall be in proportion to his share in the paid-up equity share capital of the company.
2. **Preference shareholder restrictive voting rights:** Normally preference shareholders have superior financial rights but less management control rights. Every member of a company limited by shares and holding any preference share capital therein shall, in respect of such capital, have a restrictive right to vote only on resolutions placed before the company
   a) Which directly affect the rights attached to his preference shares and,
   b) Any resolution for the winding up of the company or
   c) For the repayment or
   d) Reduction of its equity or preference share capital.

   In these situations, preference shareholders voting right on a poll shall be in proportion to his share in the paid-up preference share capital of the company.

   Release of Preference shareholder restrictive voting rights: It is provided further that where the dividend in respect of a class of preference shares has not been paid for a period of two years or more, such class of preference shareholders shall have a right to vote on ***all the resolutions*** placed before the company.

   Relative weight of equity and preference share capital, when entitled to vote: It is further provided that the proportion of the voting rights of equity shareholders to the voting rights of the preference shareholders shall be in the same proportion as the paid-up capital in respect of the equity shares bears to the paid-up capital in respect of the preference shares.

PROBLEMS FOR CLASSROOM DISCUSSION

PROBLEM 1: (PRINTED SOLUTION AVAILABLE) Buy back-Redemption of Preference shares, Sale of Investments &Bank loan: The following was the summarized balance sheet of Mukta Ltd. as on 31st March, 2019:

Equity & liability	Rs.(in lakhs)	Assets	Rs.(in lakhs)
Authorised Capital:		Fixed Assets	1,12,000
Equity shares of Rs. 10 each	80,000	Investments	24,000
Issued Capital		Cash at Bank	13,200
Equity Shares of Rs.10 each Fully Paid Up	64,000	Trade Receivables	66,000
10% Redeemable Preference Shares of 10 each, Fully Paid Up	20,000		
Reserves & Surplus:			
Capital Redemption Reserve	8,000		

Securities Premium	6,400		
General Reserve	48,000		
Profit & Loss Account	2,400		
9% Debentures	40,000		
Trade Payables	26,400		
	2,15,200		2,15,200

On 1st April,2019 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 25% of its Equity Shares at Rs.20 per Share. In order to make Cash available, the Company sold all the Investments for Rs.25,200 Lakhs and raised a Bank Loan amounting to Rs.16,000 lakh on the Security of the Company's Plant.

Give the necessary Journal Entries considering that the buy back is authorised by the articles of company and necessary resolution is passed by the company for this. The amount of Securities premium will be utilized to the maximum extents allowed by law. **(MTP-N19)**

Note: ____

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PROBLEM 2: (PRINTED SOLUTION AVAILABLE) Buy back-Sale of Investment & Bonus - Basic level: KG Limited furnishes the following summarized Balance Sheet as at 31st March, 2013:

Liabilities	(Rs. In lakhs)	Assets	(Rs. In lakhs)
Equity share capital (fully paid up shares of Rs.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		
	3,700		**3,700**

On 1st April, 2013, the company announced the Buy-back of 25% of its equity shares @ Rs.15 per share. For this purpose, it sold all of its investments for Rs.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 Rs.10 by way of bonus for every four equity shares held by the equity shareholders.

You are required to:

(1) Pass necessary journal entries for the above transactions.

(2) Prepare Balance Sheet of KG Limited after bonus issue of the shares. ***(A) (NEW SM)***

(ANS.: BALANCE SHEET TOTAL RS.3,251 LAKHS) (SOLVE PROBLEM NO 1 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: ____

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PROBLEM 3: Buy back- Issue of Preference shares, Sale of Investment: On 31st March 2007, following was the balance sheet of FCS Limited:

Name of the Company : FCS Limited

Balance Sheet as at : 31st March 2007

			Particulars	Notes No.	Rs. (in lakhs)
			1	**2**	**3**
1			**EQUITY AND LIABILITIES:** **Shareholder's funds**		

	a		Share capital	1	2,400
	b		Reserves and Surplus	2	1,620
			Non-current liabilities		
2	A		Long tem borrowings		
		(i)	12% Debentures		1,500
			Current liabilities		
3	a		Trade Payable(creditors)		750
	b		Short term provisions		390
			TOTAL		**6,660**
			ASSETS:		
			Non current assets:		
1			Fixed assets		
	A	(i)	Tangible assets	3	4,052
		(ii)	Non-current investment		148
			Current Assets:		
	a		Inventories (Stock)		1,200
2	b		Trade receivables(Debtors)		520
	c		Cash and cash equivalents (Cash at bank)		740
			TOTAL		**6,660**

Note to Accounts:

Particulars	**Rs.**
1. Share capital	
Share Cap. fully paid of Rs.10	2,400
2. Reserves and Surplus	
Securities Premium	350
General Reserve	930
Profit and Loss A/c	340
3. Tangible Assets	
Machinery	3,600
Furniture	452

On 1st April 2007 the company announced the buy-back of 25% of its equity shares @ 15 per share. For this purpose, it sold all of its investments for Rs.150 Lakhs and issued 2,00,000, 14% preference shares of Rs.100 each at par, the entire amount being payable with application.

The issue was fully subscribed. The company achieved the target of buy-back. Later the company issued one fully paid up equity share of Rs.10 by way of bonus shares for every four equity shares held by the equity shareholders.

Required: Show journal entries for all transactions including cash transactions. ***(B) (SIMILAR: N09)***

(SOLVE PROBLEM NO 2 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: ____

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PROBLEM 4: Maximum no of equity shares that can be bought back: Perrotte ltd. (a non-Listed company) has the following capital structure as on 31.03.2011

(In crores)

	Particulars	**Rs.**
1.	Equity share capital (shares of Rs.10 each fully paid)	330
	Reserves and surplus:	
2.	General reserve	240
	Securities premium account	90

	Profit and loss account	90
	Infrastructure development reserve	180
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 Rs.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 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 Rs.1,200 crores or Rs.1,500 crores.

Assuming that the entire Buy-back is completed by 09.12.2011, show the accounting entries in the company's book in each situation. *(B) (NEW SM, SIMILAR: N18 (O))*

(ANS.: MAXIMUM NO. OF SHARES THAT CAN BE BOUGHT BACK 3.75 CRORES OF SHARES)

(SOLVE PROBLEM NO 3,4 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: ____

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<u>PROBLEM 5:</u> Maximum no of equity shares that can be bought back And Balance sheet after Buy-back: Following is the Balance Sheet of M/s Competent Limited as on 31st March, 2013:

Name of the Company : M/S competent limited

Balance Sheet as at : 31st March 2013

			Particulars	Notes No.	Rs.
1			**EQUITY AND LIABILITIES:**		
			Shareholder's funds		
	A		Share capital	1	12,50,000
	B		Reserves and Surplus	2	18,75,000
2			**Non-current liabilities:**		
	A		Long term borrowings	3	28,75,000
3			**Current maturities of long term borrowings**		16,50,000
			TOTAL		**76,50,000**
1			**ASSETS:**		
			Non -current assets		
	A		Fixed assets		46,50,000
2			**Current Assets:**		30,00,000
			TOTAL		**76,50,000**

Note to Accounts:

Particulars	Rs.
1. Share capital	
Share Cap. fully paid of Rs.10	12,50,000
2. Reserves and Surplus	
Securities Premium	2,50,000
Revenue Reserve	15,00,000

Profit and Loss A/c	1,25,000
3. Long Term Borrowings	
12% debentures	18,75,000
Unsecured loans	10,00,000

The company wants to Buy-back 25,000 equity shares of Rs.10 each, on 1st April, 2013 at Rs.20 per share. Buy-back of shares is duly authorized by its articles and necessary resolution 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 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 buyback of shares and prepare the Balance Sheet after Buy-back of shares. *(A) (NEW SM, SIMILAR: RTP M18 (N&O)) (ANS.: TOTAL OF BALANCE SHEET: RS.71,50,000)*

Note:____

PROBLEM 6: (PRINTED SOLUTION AVAILABLE) Advanced (Comprehensive of Buy-back, ESOP, issue and redemption of debentures): Extra Ltd (a non-listed company) furnishes you with the following summarized balance sheet as on 31st march, 2012.

Name of the Company : Extra Limited

Balance Sheet as at: 31st March 2012 **(In Lakhs)**

			Particulars	Notes No.	Rs.
1			**EQUITY AND LIABILITIES:**		
			Shareholder's funds		
	A		Share capital	1	120
	B		Reserves and Surplus	2	118
2			**Non-current liabilities**		
	A		Long term borrowings		
		(i)	10% Debentures		4
3			**Current liabilities**		70
			TOTAL		**312**
1			**ASSETS:**		
			Non-current assets		
	A		Fixed assets		
		(i)	Tangible assets	3	50
		(ii)	Non-current Investment (Investments at cost)		120
2			**Current Assets:**		142
			TOTAL		**312**

Notes to Accounts: **(In lakhs)**

Particulars	Rs.
1. Share capital:	
Equity Shares of Rs.10 each fully paid	100
9% redeemable preference shares of Rs. 100 each fully paid	20
2. Reserves and Surplus:	

Securities Premium	60
Capital Reserve	8
Revenue reserve	50
3. Tangible Assets:	
Fixed Assets less depreciation	50

1. The company redeemed the preference shares at a premium of 10% on 1st april,2012

2. It also bought back 3 lakhs equity shares of Rs.10 each at Rs.30 per share.

The payment for the above was made out of huge bank balances, which appeared as a part of the current assets.

3. Included in its investment were "investments in own debentures" costing Rs.2 lakhs (face value Rs.2.20 lakhs). These debentures were cancelled on 1st April, 2012.

4. The company had 1,00,000 equity stock options outstanding on the above mentioned date, to the employee at Rs.20 when the market price was Rs.30.(this was included under current liabilities). On 01.04.2012 employees exercised their options for 50,000 shares.

5. Pass the journal entries to record the above.

6. Prepare balance sheet as at 01.04.2012. ***(B) (NEW SM, MTP N17) (ANS.: TOTAL OF BALANCE SHEET: RS. 208L)***

Note: ____

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PROBLEM 7: **Voting rights of preference and equity share holders:** 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 Rs.1 Crore and Preference share capital is Rs.50 Lakhs, then find their voting rights in case of resolution of winding up of the company.

(B) (NEW SM) (ANS.: THE RESPECTIVE VOTING RIGHTS OF SHAREHOLDERS ARE X-26.67%, Y-26.67%, Z-13.33%, A-16.67%, B-10%, C-6.67%) (SOLVE PROBLEM NO 5 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: ____

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PRINTED SOLUTIONS FOR SOME SELECTIVE PROBLEMS

PROBLEM NUMBERS TO WHICH SOLUTIONS ARE PROVIDED: **1, 2, 6**

PROBLEM NO: 1

Journal entries

In the books of Mukta Ltd.

			Rs. in lakhs
	Particulars	**Dr.**	**Cr.**
1.	Bank A/c Dr. To Investments A/c To Profit and Loss A/c (Being Investments sold and, profit being credited to Profit and Loss Account)	25,200	 24,000 1,200
2.	10% Redeemable Preference Share Capital A/c Dr. Premium payable on Redemption of Preference Shares A/c Dr. To Preference Shareholders A/c (Being amount payable on redemption of Preference shares, at a Premium of 10%)	20,000 2,000	 22,000
3.	Securities Premium A/c Dr. To Premium payable on Redemption of Preference Shares A/c	2,000	 2,000

	(Being Securities Premium utilised to provide Premium on Redemption of Preference Shares)		
4.	Equity Share Capital A/c Dr. Premium payable on Buyback A/c Dr. To Equity Share buy back A/c (Being the amount due on buy-back)	16,000 16,000	 32,000
5.	Securities Premium A/c (6,400 – 2,000) Dr. General Reserve A/c (balancing figure) Dr. To Premium payable on Buyback A/c (Being premium on buyback provided first out of Securities Premium and the balance out of General Reserves.)	4,400 11,600	 16,000
6.	Bank A/c Dr. To Bank Loan A/c (Being Loan taken from Bank to finance Buyback)	16,000	 16,000
7.	Preference Shareholders A/c Dr. Equity Shares buy back A/c Dr. To Bank A/c (Being payment made to Preference Shareholders and Equity Shareholders)	22,000 32,000	 54,000
8.	General Reserve Account Dr. To Capital Redemption Reserve Account (Being amount transferred to Capital Redemption Reserve Account to the extent of face value of preference shares redeemed and equity Shares bought back) (20,000 + 16,000)	36,000	 36,000

PROBLEM NO: 2

In the books of KG Limited

Journal Entries

Date 2013	Particulars	Dr. (Rs.in lakhs)	Cr. (Rs.in lakhs)
April 1	Bank A/c Dr. To Investment A/c To Profit on sale of investment (Being investment sold on profit)	75	 74 1
April 5	Equity share capital A/c Dr. Securities premium A/c Dr. To Equity shares buy back A/c (Being the amount due to equity shareholders on buy back)	300 150	 450
	Equity shares buy back A/c Dr. To Bank A/c (Being the payment made on account of buy back of 30 Lakh Equity Shares)	450	 450
April 5	General reserve A/c Dr. Profit and Loss A/c Dr. To Capital redemption reserve A/c (Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law)	265 35	 300
April 30	Capital redemption reserve A/c Dr. To Bonus Issue A/c (W.N.1) (Being the utilization of capital redemption reserve to issue bonus shares)	225	 225

	Bonus Issue A/c Dr. To Equity share capital A/c (Being issue of one bonus equity share for every four equity shares held)	225	225

Balance Sheet (After buy back and issue of bonus shares)

Particulars	Note No.	Amount (Rs.in Lakhs)
I. EQUITY AND LIABILITIES:		
(1) Shareholder's Funds		
(a) Share Capital	1	1,125
(b) Reserves and Surplus	2	436
(2) Non-Current Liabilities		
(a) Long-term borrowings - 12% Debentures		750
(3) Current Liabilities		
(a) Trade payables		745
(b) Other current liabilities		195
TOTAL		**3,251**
II. ASSETS:		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets	3	2,026
(2) Current assets		
(a) Current investments		
(b) Inventory		600
(c) Trade receivables		260
(d) Cash and cash equivalents (W.N. 2)		365
TOTAL		**3,251**

Notes to Accounts:

Particulars		Rs.	Rs.
1. Share Capital			
Equity share capital (Fully paid up shares of Rs.10 each)			1125
2. Reserves and Surplus			
General Reserve	265		
Less: Transfer to CRR	(265)	-	
Capital Redemption Reserve	200		
Add: Transfer due to buy-back of shares from P/L	35		
Transfer due to buy-back of shares from Gen. res.	265		
Less: Utilisation for issue of bonus shares	(225)	275	
Securities premium	175		
Less: Adjustment for premium paid on buy back	(150)	25	
Profit & Loss A/c	170		
Add: Profit on sale of investment	1		
Less: Transfer to CRR	(35)	136	436
3. Tangible assets			
Machinery		1800	
Furniture		226	2026

Working Notes:

1. Amount of bonus shares = 25% of (1,200 – 300) lakhs = Rs.225 lakhs
2. Cash at bank after issue of bonus shares

Particulars	Rs. in lakhs
Cash balance as on 1st April, 2013	740
Add: Sale of investments	75
	815
Less: Payment for buy back of shares	(450)
	365

Note: In the given solution, it is possible to adjust transfer to capital redemption reserve account or capitalization of bonus shares from any other free reserves or securities premium (to the extent available) also.

PROBLEM NO: 6

(Rs. in lakhs)

Date	Particulars	Debit	Credit
01.04.2012	9% Redeemable preference share capital A/c Dr. Premium on redemption of preference shares A/c Dr. To Preference shareholders A/c (Being preference share capital transferred to shareholders account)	20.00 2.00	 22.00
01.04.2012	Preference shareholders A/c Dr. To Bank A/c (Being payment made to shareholders)	22.00	 22.00
01.04.2012	Equity shares buy back A/c Dr. To Bank A/c (Being 3 lakhs equity shares of Rs. 10 each bought back @ Rs. 30 per share)	90.00	 90.00
01.04.2012	Equity share capital A/c Dr. Securities premium A/c Dr. To Equity Shares buy back A/c (Being cancellation of shares bought back)	30.00 60.00	 90.00
01.04.2012	Revenue reserve A/c Dr. To Capital redemption reserve A/c (Being creation of capital redemption reserve account to the extent of the face value of preference shares redeemed and equity shares bought back as per the law)	50.00	 50.00
01.04.2012	10% Debentures A/c Dr. To Investment (own debentures) A/c To Profit on cancellation of own debentures A/c (Being cancellation of own debentures costing Rs. 2 lakhs, Face value being Rs. 2.20 lakhs and the balance being profit On cancellation of debentures)	2.20	 2.00 0.20
01.04.2012	Profit on cancellation of debentures A/c Dr. To Capital reserve A/c (Being profit on cancellation of debentures transferred to capital reserve account)	0.20	 0.20
01.04.2012	Bank A/c Dr. Employees stock option outstanding (Current liabilities) A/c Dr. To Equity share capital A/c To Securities premium A/c (Being the allotment to employees, of 50,000 shares of Rs. 10	10.00 5.00	 5.00 10.00

	each at a premium of 20 per share in exercise of stock options by employees)		
01.04.2012	Securities Premium a/c Dr. To Premium on redemption of preference shares A/c (Being premium on redemption of preference shares adjusted through securities premium)	2.00	2.00

Balance Sheet of Extra Ltd. as on 01.04.2012

Particulars	Note No	(Rs. in lakhs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	**1**	75.00
(b) Reserves and Surplus	**2**	66.20
(2) Non-current Liabilities		
(a) Long term borrowings	**3**	1.80
(3) Current Liabilities		65.00
Total		**208.00**
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment		50.00
(b) Non-current investments at cost		118.00
(2) Current assets	**4**	40.00
Total		**208.00**

Notes to Accounts

		Rs. in lakhs
1.Share Capital		
Equity share capital		
Opening balance	100.00	
Less : Cancellation of bought back shares	(30.00)	
Add : Shares issued against ESOP	5.00	**75.00**
2.Reserves and Surplus		
Capital Reserve		
Opening balance	8.00	
Add: Profit on cancellation of debentures	0.20	**8.20**
Revenue reserves		
Opening balance	50.00	
Less: Creation of Capital Redemption Reserve	(50.00)	
Securities Premium		
Opening balance	60.00	
Less : Adjustment for cancellation of equity shares	(60.00)	
Less: Adjustment for premium on redemption of preference shares	(2.00)	
Add: Shares issued against ESOP at premium	10.00	8.00
Capital Redemption Reserve		50.00
		66.20
3.Long term borrowings		
Secured		
10% Debentures (4-2.20)		**1.8**

Working Notes:

		(Rs. in lakhs)
1.	**10% Debentures**	
	Opening balance	4.00
	Less: Cancellation of own debentures	(2.20)
		1.80
2.	**Current liabilities**	
	Opening balance	70.00
	Less: Adjustment for ESOP outstanding	(5.00)
		65.00
3.	**Investments at cost**	
	Opening balance	120.00
	Less: Investment in own debentures	(2.00)
		118.00
4.	**Current assets**	
	Opening balance	142.00
	Less : Payment to preference shareholders	(22.00)
	Less : Payment to equity shareholders	(90.00)
	Add : Share price received against ESOP	10.00
		40.00

ASSIGNMENT PROBLEMS

PROBLEM 1: Accounting treatment for buy back of shares at premium: CAN Ltd. furnishes you with the following Balance Sheet as at 31st March, 2011: **(In crore of Rs.)**

Particulars	**Rs.**	**Rs.**
Source of funds:		
Share Capital:		
Authorized:		100
Issued:		
12% Redeemable Pref. Shares of Rs.100 each fully paid	75	
Equity shares of Rs.10 each fully paid	25	100
Reserves and Surplus:		
Capital reserve	15	
Securities premium	25	
Revenue Reserve	260	300
		400
Funds employed in:		
Fixed assets: Cost	100	
Less: Provision for depreciation	100	Nil
Investment at cost (Market value Rs.400 cr.)		100
Current assets	340	
Less: Current liabilities	40	300
		400

The company redeemed preference shares on 1st April, 2011. It also bought back 50 lakh equity shares of Rs.10 each at Rs.50 per share. The payments for the above were made out of the huge bank balances, which appeared as part of current assets

You are asked to:

a) Pass journal entries to record the above

b) Prepare balance sheet. *(B) (NEW SM, RTP M12) (ANS.: TOTAL OF BALANCE SHEET: RS. 340CRORES)*

PROBLEM 2: M Ltd. furnishes the following summarized Balance Sheet as at 31st March, 2013:

Particulars	Rs.'000	Rs.'000
EQUITY & LIABILITIES:		
Share Capital:		
Authorized Capital:		5,000
Issued and Subscribed Capital:		
3,00,000 Equity shares of Rs.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
Reserve and Surplus:		
Capital reserve	10	
Revenue reserve	4,000	
Securities premium	500	
Profit and Loss account	1,800	6,310
Non-current liabilities - 10% Debentures		400
Current liabilities and provisions		40
		11,750
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
		11,750

The company passed a resolution to Buy-back 20% of its equity capital @ Rs.15 per share. For this purpose, it sold its investments of Rs.30 lakhs for Rs.25 lakhs.

You are required to pass necessary Journal entries *(B) (NEW SM)*

PROBLEM 3: Buy-back of shares from fresh issue: Umesh Ltd. resolves to buy back 4 Lakhs of its fully paid equity shares of Rs.10 each at Rs.22 per share. For the purpose, it issues 1 lakh 11 % preference shares of Rs.10 each at par, the entire amount being payable with applications. The company uses Rs.16 Lakhs of its balance in Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back. Give necessary journal entries to record the above transactions. *(C) (RTP N16, N19)*

PROBLEM 4: Maximum no of equity shares that can be bought back: SMM Ltd. has the following capital structure as on 31st March, 2017: **(Rs. in crore)**

Particulars	Situation 1	Situation 2
(i) Equity share capital (shares of Rs. 10 each)	1,200	1,200
(ii) Reserves:		
General Reserves	1,080	1,080
Securities Premium	400	400
Profit & Loss	200	200
Infrastructure Development Reserve (Statutory Reserve)	320	320
(iii) Loan Funds	3,200	6,000

The company has offered buy back price of Rs. 30 per equity share. You are required to Calculate maximum permissible number of equity shares that can be bought back in both Situations and also required to pass necessary Journal Entries. *(B) (M 17)*

(ANS.: MAXIMUM NO. OF SHARES THAT CAN BE BOUGHT BACK - 24 CRORE)

<u>PROBLEM 5:</u> Voting rights of preference and equity share holders: W, X, Y and Z hold Equity capital is held by in the proportion of 40:30:10:20. A, B, C and D hold preference share capital in the proportion of 30:40:20:10. If the paid up capital of the company is Rs.40 Lakhs and Preference share capital is Rs.20 Lakhs, Find their voting rights in case of resolution of winding up of the company.

(B) (NEW SM, SIMILAR: MTP2 N18 (N) - 5M, N18 (N) - 5M)

(ANS.: THE RESPECTIVE VOTING RIGHTS OF SHAREHOLDERS ARE 26.67%, 20%, 6.67%, 13.33%, 10%, 13.33%, 6.67%&3.33%)

ADDITIONAL QUESTION BANK

<u>PROBLEM 1:</u> (a) What is meant by "equity shares with differential rights". Can preference shares be also issued with differential rights?

(b) L, M, N and O hold Equity capital in the proportion of 30:30:20:20 in AB Ltd. X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10.

You are required to identify the voting rights of shareholders in case of resolution of winding up of the company if the paid-up capital of the company is ` 80 Lakh and Preference share capital is Rs. 40 Lakh. **(RTP-N19)**

(ANS.: THE RESPECTIVE VOTING RIGHTS OF SHAREHOLDERS ARE 3/15,3/15,2/15,2/15,2/15 ,1/10,1/15,1/30)

THE END