

**1. BUY BACK OF SECURITIES AND EQUITY SHARES WITH DIFFERENTIAL RIGHTS****ASSIGNMENT SOLUTIONS****PROBLEM NO:1****JOURNAL ENTRIES IN THE BOOKS OF CAN LTD.**

(Rs. in crores)

Date	Particulars	Debit Rs.	Credit Rs.
01.04.2011	12 % Preference share Capital A/c To Preference shareholders A/c (Being preference share capital A/c transferred to shareholder's A/c)	Dr. 75	75
01.04.2011	Preference shareholders A/c To Bank A/c (Being payment made to shareholders)	Dr. 75	75
01.04.2011	Shares buy back A/c To Bank A/c (Being 50 Lakhs equity shares bought back, @ Rs.50 per share)	Dr. 25	25
01.04.2011	Equity Share Capital A/c (50 Lakhs x Rs.10) Securities Premium A/c (50 Lakhs x Rs.40) To Shares buy back A/c (Being Cancellation of shares bought back)	Dr. 5 20	25
01.04.2011	Revenue Reserves A/c (75 + 5) To Capital Redemption Reserve A/c (Being creation of CRR to the extent of the face value of preference shares redeemed and Equity Shares bought back)	Dr. 80	80

Name of the Company: CAN Ltd.

Balance Sheet as at: 01.04.2011

	Particulars	Notes No.	Rs.in crores
<b>EQUITY AND LIABILITIES</b>			
1.	Shareholder's funds		
a.	Share Capital	1	20
b.	Reserves and Surplus	2	280
2.	Current Liabilities		
a.	Trade payables		40
	<b>Total</b>		<b>340</b>
<b>ASSETS</b>			
1.	Non- Current Assets		
a.	Fixed Assets	3	-
b.	Non-Current Investments (Market Value Rs.400cr.)		100
2.	Current Assets	4	240
	<b>Total</b>		<b>340</b>
<b>NOTES TO ACCOUNTS:</b>			<b>Amount (In Crores)</b>
1.	<b>Share Capital</b>		
	Authorized, Issued, and Subscribed		
	200 Lakhs Equity Shares of Rs.10 each.		20
2.	<b>Reserves and surplus</b>		
	Capital Reserve		15
	Capital Redemption Reserve		80
	Securities Premium A/c	25	

	Utilization for buy back of shares	(20)	5
	Revenue Reserve	260	
	Transfer to CRR	(80)	180
	<b>Total</b>		<b>280</b>
3.	<b>Fixed assets at cost</b>	100	
	Depreciation	(100)	-
4.	<b>Current Assets as on 31.03.2011</b>	340	
	Bank payment for Redemption and Buy back	(100)	240

### **PROBLEM NO:2**

#### JOURNAL ENTRIES IN THE BOOKS OF 'M' LTD.

(Rs. in '000)

	PARTICULARS	Dr.	Cr.
1.	Bank A/c	Dr. 2,500	
	Profit and Loss A/c	Dr. 500	
	To Investment A/c		3000
	(Being investment sold for the purpose of buyback of Equity Shares)		
2.	Equity share capital A/c	Dr. 600	
	Premium payable on buy-back	Dr. 300	
	To Equity shares buy-back A/c		900
	(Being the amount due on buy-back of equity shares)		
3.	Equity shares buy-back A/c	Dr. 900	
	To Bank A/c		900
	(Being payment made for buy-back of equity shares)		
4.	Securities Premium A/c	Dr. 300	
	To Premium payable on buy-back		300
	(Being premium payable on buy-back charged from Securities premium)		
5.	Revenue reserve A/c	Dr. 600	
	To Capital Redemption Reserve A/c		600
	(Being creation of capital redemption reserve to the extent of the equity shares bought back)		

### **PROBLEM NO:3**

#### Journal Entries

	Particulars	Rs.	Rs.
1.	Bank A/c	Dr. 10,00,000	
	To 11% Preference share application & allotment A/c		10,00,000
	(Being receipt of application money on preference shares)		
2.	11% Preference share application & allotment A/c	Dr. 10,00,000	
	To 11% Preference share Capital A/c		10,00,000
	(Being allotment of 1 lakh preference shares)		
3.	General Reserve A/c	Dr. 30,00,000	
	To Capital Redemption Reserve A/c		30,00,000
	(Being creation of capital redemption reserve for buy back of shares)		
4.	Equity share capital A/c	Dr. 40,00,000	
	Securities Premium A/c	Dr. 16,00,000	
	General reserve A/c	Dr. 32,00,000	
	To Equity shareholders/Equity Shares buy back A/c		88,00,000
	(Amount payable to equity shareholder on buy back)		
5.	Equity shareholders/ Equity Shares buy back A/c	Dr. 88,00,000	
	To Bank A/c		88,00,000
	(Being payment made for buy back of shares)		

#### WORKING NOTES:

- Calculation of amount used from General Reserve Account

Particulars	Rs.
Amount paid for buy back of shares (4,00,000 shares x Rs. 22)	88,00,000
<b>Less:</b> Proceeds from issue of Preference Shares (1,00,000 shares x Rs.10)	(10,00,000)
<b>Less:</b> Utilisation of Securities Premium Account	(16,00,000)
Balance used from General Reserve Account	62,00,000
* Used under Section 68 for buy back	32,00,000
Used under Section 69 for transfer to CRR (W.N 2)	30,00,000
	62,00,000

## 2. Amount to be transferred to Capital Redemption Reserve account

Particulars	Rs.
Nominal value of shares bought back (4,00,000 shares x Rs.10)	40,00,000
<b>Less:</b> Nominal value of Preference Shares issued for such buy back (1,00,000 shares x Rs.10)	(10,00,000)
Amount transferred to Capital Redemption Reserve Account	30,00,000

**Note:** It is assumed that the buy-back of 4,00,000 equity shares is within the prescribed 25% limit of total equity shares.

## PROBLEM NO:4

Statement determining the maximum number of shares to be bought back

Number of shares (in Crores)

Particulars	When loan fund is	
	Rs.3,200 Crores	Rs.6,000 Crore
Shares Outstanding Test (W.N.1)	30	30
Resources Test (W.N.2)	24	24
Debt Equity Ratio Test (W.N.3)	32	Nil
Maximum number of shares that can be bought back [least of the above]	24	Nil

Journal Entries for the Buy Back (applicable only when loan fund is Rs.3,200 Crores)

Rs.in crores

	Particulars	Debit	Credit
a)	Equity share buy-back account A/c To Bank account A/c (Being buy back of 3.75 crores equity shares of Rs.10 each @ Rs.30 per share)	Dr. 720	720
b)	Equity share capital account A/c Premium payable on buy back A/c To Equity share buy-back account A/c (Being cancellation of shares bought back)	Dr. 240 Dr. 480	720
c)	Securities premium A/c General reserve account A/c To Premium payable on buy back A/c (Being premium payable on buyback A/c charged to securities premium and general reserve/Profit & Loss A/c )	Dr. 400 Dr. 80	480
d)	General reserve/ Profit & Loss A/c To Capital redemption reserve A/c (Being transfer of free reserve to Capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)	Dr. 240	240

### Working Notes:

#### 1. Shares Outstanding Test

Particulars	(Shares in crores)
Number of shares outstanding	120
25% of the shares outstanding	30

## 2. Resources Test

Particulars	
Paid up capital (Rs. in crores)	1200
Free reserves (Rs. in crores) (1080+400+200)	1680
Shareholders' funds (Rs. in crores)	2880
25% of Shareholders fund (Rs. in crores)	Rs.720 Crores
Buy back price per share	Rs.30
Number of shares that can be bought back (shares in crores)	24 crores shares

## 3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity funds post Buyback

Particulars	When loan fund is	
	Rs.3,200 crores	Rs.6,000 crores
Loan funds (Rs. in crores)	3,200	6,000
Minimum equity to be maintained after buy back in the ratio of 2:1 (Rs. in crores)	1,600	3,000
Present equity shareholders fund (Rs. in crores)	2,880	2,880
Future equity shareholder fund (Rs. in crores) (See Note 4)	2,560 (2,880 - 320)	N.A
Maximum permitted buy back of Equity (Rs. in crores) [(d) - (b)]	960	Nil
Maximum number of shares that can be bought back @ Rs.30 per share (shares in crores)	32 Crore shares	Nil
As per the provisions of the Companies Act, 2013, Company	Qualifies	Does not Qualify

## 4. Amount transferred to CRR and Maximum equity to be bought back will be calculated by simultaneous equation method:

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

Then

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

$$(2,880 - x) - 1,600 = y$$

$$\text{Since } 1280 - x = y \quad (1)$$

**Equation 2:**

$$\frac{\text{Maximum buy - back}}{\text{Offer Price for buy back}} \times \text{Nominal Value}$$

= Nominal value of the shares bought back to be transferred to CRR

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

$$\text{Or } 3x = y \quad (2)$$

By solving the above equation we get

$$x = \text{Rs.320} \quad y = \text{Rs.960}$$

**PROBLEM NO:5**

W, X, Y and Z hold Equity capital is held by in the proportion of 40:30:10:20 and A, B, C and D hold preference share capital in the proportion of 30:40:20:10. As the paid up equity share capital of the company is Rs. 40 Lakhs and Preference share capital is Rs. 20 Lakh (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3. The respective voting right of various shareholders will be

$$W = 2/3 \times 40/100 = 4/15$$

$$X = 2/3 \times 30/100 = 3/15$$

$$Y = 2/3 \times 10/100 = 1/15$$

$$Z = 2/3 \times 20/100 = 2/15$$

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$$A = 1/3 \times 30/100 = 1/10$$

$$B = 1/3 \times 40/100 = 2/15$$

$$C = 1/3 \times 20/100 = 1/15$$

$$D = 1/3 \times 10/100 = 1/30$$

## **SOLUTIONS FOR SELF PRACTICE**

### **PROBLEM NO:1**

**(a)** Equity shares with Differential Rights means the share with dissimilar rights as to dividend, voting or otherwise. Preference shares cannot be issued with differential rights. It is only the equity shares, which are issued.

**(b)** L, M, N and O hold Equity capital in the proportion of 30:30:20:20 and X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10. As the paid-up equity share capital of the company is Rs. 80 Lakhs and Preference share capital is Rs. 40 Lakh (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3. The respective voting right of various shareholders will be

$$L = 2/3 \times 30/100 = 3/15$$

$$M = 2/3 \times 30/100 = 3/15$$

$$N = 2/3 \times 20/100 = 2/15$$

$$O = 2/3 \times 20/100 = 2/15$$

$$X = 1/3 \times 40/100 = 2/15$$

$$Y = 1/3 \times 30/100 = 1/10$$

$$Z = 1/3 \times 20/100 = 1/15$$

$$K = 1/3 \times 10/100 = 1/30$$

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