

6. 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.
01.04.2012	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
01.04.2012	Preference shareholders A/c To Bank A/c (Being payment made to shareholders)	Dr. 75	75
01.04.2012	Shares buy back A/c To Bank A/c (Being 50 Lakhs equity shares bought back, @ Rs.50 per share)	Dr. 25	25
01.04.2012	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
01.04.2012	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: 01.04.2012.

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

3.	Fixed assets at cost	100	
	Depreciation	(100)	-
4.	Current Assets as on 31.03.2012	340	
	Bank payment for Redemption and Buy back	(100)	240

PROBLEM NO: 2

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:

1. 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
Less: Proceeds from issue of Preference Shares (1,00,000 shares x Rs.10)	(10,00,000)
Less: 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
Less: 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: 3

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 To Bank account (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 Premium payable on buy back A/c To Equity share buy-back account (Being cancellation of shares bought back)	Dr. 240 Dr. 480	720
c)	Securities premium A/c General reserve account 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: 4

In the books of FCS Ltd.

Journal Entries

(Rs. in lakhs.)

Date	Particulars	Debit Rs.	Credit Rs.
01.04.2007	Bank A/c To Investments A/c To Profit & Loss A/c (Being the investments sold at a profit of Rs.2 lakhs for the purpose of buy back)	Dr. 150	148 2
01.04.2007	Bank A/c To Preference share Application & Allotment A/c (Being the application money received on issue of 2 lakhs preference shares of Rs.100 each)	Dr. 200	200
01.04.2007	Preference share Application & Allotment A/c To 14 % preference share capital A/c (Being the allotment of 14 % preference shares)	Dr. 200	200
01.04.2007	Equity Share Capital A/c (2400 × 25 %) Premium payable on buy back A/c (60 × 5) To Equity Shares buy back A/c (60 × 15) (Being the amount due on buy back)	Dr. 600 Dr. 300	900
01.04.2007	Securities Premium A/c To Premium payable on buy back A/c (Being the premium payable on buy back adjusted against securities premium A/c)	Dr. 300	300
01.04.2007	General Reserve A/c (600 - 200) To Capital Redemption Reserve A/c (Being the amount equal to Normal value of equity shares bought back out of free Reserves transferred to CRR A/c after adjusting fresh issue of preference share capital)	Dr. 400	400
01.04.2007	Equity Shares buy back A/c To Bank A/c (Being the payment made on buy back)	Dr. 900	900
01.04.2007	Capital Redemption Reserve A/c General Reserve A/c To Bonus Issue A/c (Being the bonus shares announced in 1:4 ratio by capitalization of Reserves)	Dr. 400 Dr. 50	450
01.04.2007	Bonus Issue A/c To Equity share Capital A/c (Being issue of 45 Lacks equity shares of Rs.10 each as bonus shares)	Dr. 450	450

WORKING NOTES:

S.NO	Particulars	Rs. (In lakhs)
1.	Normal value of Equity share capital bought back ($2,400$ lakhs $\times 25\%$) ($2,400$ lakhs $\times 25\%$)	600
	(-) Normal value of preference share capital issued	(200)
	Amount Transferred to CRR A/c from General Reserve	400
2.	Equity share capital before buy back	2400
	(-) Buy back of Equity share capital ($2400 \times 25\%$)	(600)
	Remaining Share capital after buy back	1800
	Ratio of Bonus announced	1:4
	Bonus Issue: $1800 \times \frac{1}{4}$	450
	(45 Lacks Equity Shares of Rs.10 each)	

PROBLEM NO:5JOURNAL ENTRIES IN THE BOOKS OF 'M' LTD.

(Rs. in '000)

DATE	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:6

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

$$W = \frac{2}{3} \times \frac{40}{100} = \frac{4}{15}$$

$$A = \frac{1}{3} \times \frac{30}{100} = \frac{1}{10}$$

$$X = \frac{2}{3} \times \frac{30}{100} = \frac{3}{15}$$

$$B = \frac{1}{3} \times \frac{40}{100} = \frac{2}{15}$$

$$Y = \frac{2}{3} \times \frac{10}{100} = \frac{1}{15}$$

$$C = \frac{1}{3} \times \frac{20}{100} = \frac{1}{15}$$

$$Z = \frac{2}{3} \times \frac{20}{100} = \frac{2}{15}$$

$$D = \frac{1}{3} \times \frac{10}{100} = \frac{1}{30}$$

THE END