

4. ACCOUNTING FOR BUY BACK OF SHARES

PROBLEM NO: 1

In the books of Dee Ltd.

Journal Entries

(Rs. in lakhs.)

Date	Particulars	Debit Rs.	Credit Rs.
1.	Bank A/c Dr.	22	
	Profit & Loss A/c Dr.	8	
	To Investments A/c		30
	(Being the investments sold at loss for the purpose of buy back)		
2.	Equity Share Capital A/c Dr.	5	
	Premium payable on buy back A/c Dr.	20	
	To Equity Shares buy back A/c		25
	(Being the amount due on buy back)		
3.	Securities Premium A/c Dr.	20	
	To Premium payable on buy back A/c		20
	(Being the premium payable on buy back adjusted against securities premium A/c)		
4.	Revenue Reserve A/c (Note) Dr.	3	
	To Capital Redemption Reserve A/c		3
	(Being the amount equal to normal value of equity shares bought back out of free reserves transferred to CRR A/c)		
5.	Equity Share buyback A/c Dr.	25	
	To Bank A/c		25
	(Being the payment made on buy back)		

Name of the Company: - DEE Ltd.

Balance Sheet as at: - 01.04.2012.

(Immediately after buy back of shares)

	Particulars	Notes Numbers	Amount (Rs.in Lakhs)
	EQUITY AND LIABILITIES		
1.	Shareholder's funds		
	a Share Capital	1	22
	b Reserves and Surplus	2	69
2.	Current Liabilities		14
	Total		105
	ASSETS		
1.	Non- Current Assets		
	a Fixed Assets		93
2.	Current Assets		12
	Total		105
	NOTES TO ACCOUNTS :-		
1.	Share Capital		
	Authorized		30
	Issued, Subscribed and paid-up		
	2, 00,000 Equity Shares of Rs.10 each. Fully paid-up		20
	2000 10 % Preference Shares of Rs.100 each, fully paid-up		2
			22
2.	Reserves and surplus		
	i Capital Reserve		10
	ii Capital Redemption Reserve		3
	iii Securities Premium	22	

	Premium payable on buy back of shares	(20)		2
iv	Revenue Reserve	30		
	Transfer to capital Redemption Reserve (CRR)	(3)		27
v	Profit & Loss A/c	35		
	Loss on sale of Investments	(8)		27
	Total			69

PROBLEM NO: 2**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 Dr.	75	
	To Preference shareholders A/c		75
	(Being preference share capital A/c transferred to shareholder's A/c)		
01.04.2012	Preference shareholders A/c Dr.	75	
	To Bank A/c		75
	(Being payment made to shareholders)		
01.04.2012	Shares buy back A/c Dr.	25	
	To Bank A/c		25
	(Being 50 Lacks equity shares bought back, @ Rs.50 per share)		
01.04.2012	Equity Share Capital A/c (50lacks X Rs.10) Dr.	5	
	Securities Premium A/c (50lacks X Rs.40)	20	
	To Shares buy back A/c		25
	(Being Cancellation of shares bought back)		
01.04.2012	Revenue Reserves A/c (75+5) Dr.	80	
	To Capital Redemption Reserve A/c		80
	(Being creation of CRR to the extent of the face value of preference shares redeemed and Equity Shares bought back)		

Name of the Company: - CAN Ltd.

Balance Sheet as at: - 01.04.2012.

	Particulars	Notes No's	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		
	200Lacks 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: 3In the books of FCS Ltd.Journal Entries

(Rs. in lakhs.)

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

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To **MASTER MINDS**, Guntur

WORKING NOTES:

S.NO	Particulars	Rs. (In lakhs)
1.	Normal value of Equity share capital bought back (2,400 lakhs X 25 %) (2400 lakhs X 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 X 25 %)	(600)
	Remaining Share capital after buy back	1800
	Ratio of Bonus announced	1:4
	Bonus Issue : 1800 X ¼	450
	(45 Lacks Equity Shares of Rs.10 each)	

PROBLEM NO: 4**JOURNAL ENTRIES IN THE BOOKS OF 'M' LTD.**

(Rs. in '000)

DATE	PARTICULARS	Debit	Credit
01.04.2013	Bank A/c	25	
	Profit & Loss A/c	5	
	To Investments A/c		30
	(Being investments sold for the purpose of buy back of equity shares)		
01.04.2013	Preference Share Capital A/c	20	
	Securities Premium A/c (Premium on Redemption)	2	
	To Preference Shareholders A/c		22
	(Being redemption of preference share capital at a premium of 10 %)		
01.04.2013	Preference Shareholders A/c	22	
	To Bank A/c		22
	(Being payment made to preference shareholders)		
01.04.2013	Equity share Capital A/c	6	
	Securities Premium A/c (premium on buy back)	3	
	To Equity shares buy back A/c		9
	(Being the amount due on buy back of equity shares)		
01.04.2013	Equity shares buy back A/c	9	
	To Bank A/c		9
	(Being payment made for buy back of equity shares)		
01.04.2013	10 % Debentures A/c	3.30	
	To own Debentures A/c		3
	To Capital Reserve A/c (Profit on cancellation)		3.30
	(Being own debentures cancelled at profit)		
01.04.2013	Revenue Reserve A/c (Note)	26	
	To Capital Redemption Reserve A/c		26
	(Being creation of capital Redemption Reserve to the extent of Normal value of preference shares redeemed and equity shares buy back)		

Name of the Company: - 'M' Ltd.
Balance Sheet as at : - 01.04.2013.

		Particulars	Notes No's	Rs.in lacks
		EQUITY AND LIABILITIES		
1.		Shareholder's funds		
	a.	Share Capital	1	2400
	b.	Reserves and Surplus	2	5340
2.		Non-Current Liabilities		
	a.	Long term borrowings	3	70
3.		Current Liabilities		40
		Total		7850
		ASSETS		
1.		Non- Current Assets		
	a.	Fixed Assets		2750
	b.	Non-Current Investments	4	1700
2.		Current Assets	5	3400
		Total		7850

NOTES TO ACCOUNTS:

Amount (In '000')

1.		Share Capital		
		Authorized Share Capital Issued, Subscribed and paid-up		5000
		2,40,000 Equity Shares of Rs.10 each, fully paid-up (60,000 Equity Shares had been bought back and cancelled during the year)		2400
2.		Reserves and surplus		
		Capital Reserve	10	
		(+) Profit on Cancellation of Debentures	30	40
		Securities Premium	500	
		Premium Paid on redemption of Preference shares	200	
		Premium on buy back of equity shares	300	-NIL-
		Revenue Reserves	4000	
		Transfer to CRR	2600	1400
		Capital Redemption Reserve A/c		2600
		Surplus (Profit & Loss A/c)	1800	
		Loss on Sale of Investments	(500)	1300
		Total		5340
3.		Long term borrowings		
		10 % Debentures (4-3.30)		
4.		Non-Current Investments		
		Balance as on 31.03.2013	5000	
		Investments Sold	(3000)	
		own Debentures Cancelled	(300)	1700
5.		Current Assets		
		Balance as on 31.03.2013	4000	
		Cash received on sale of Investments	2500	
		Payment made to Equity share holders for buy back of shares	(900)	
		Payment made to preference share holders	(2200)	3400

Note: In the given solution it is assumed that the buy back of shares is done out of sale of investments. So, the nominal value of shares bought back is transferred to CRR from revenue reserve.

Alternatively it can be assumed that buy back if from proceeds of preference shares. In this case, no amount shall be transferred to CRR regarding buy back of shares. At that time, the amount of revenue reserve transferred to CRR will be only Rs. 20 lacs instead of Rs. 26 lacs.

THE END