

6. BUY BACK OF SECURITIES AND EQUITY SHARES WITH DIFFERENTIAL RIGHTS**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 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: 2**Journal Entries**

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

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 crores	Rs.6,000 Crores crores
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 Dr. To Bank account (Being buy back of 3.75 crores equity shares of Rs.10 each @ Rs.30 per share)	720	720
b)	Equity share capital account Dr. Premium payable on buy back A/c Dr. To Equity share buy-back account (Being cancellation of shares bought back)	240 480	720
c)	Securities premium A/c Dr. General reserve account Dr. 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)	400 80	480
d)	General reserve/ Profit & Loss A/c Dr. 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)	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

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

$$\text{Since } 1280 - x = y$$

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

$$x = \text{Rs.}320$$

$$y = \text{Rs.}960$$

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 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)			

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: 5**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		5000
	Issued, Subscribed and paid-up		
	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.

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

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

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

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

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

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

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

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

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

THE END