

Pref and buy back

Thursday, 13 February 2025 6:40 PM



Pref and buy back

Buy Back of Securities & Equity Shares

		Rs.	Rs.
Secured			
12% Debentures		18,75,000	
Unsecured loans		10,00,000	28,75,000

Section – 4
Buy- Back and Redemption of Pref. Shares

4.1
B-22 Ltd. (a non-listed company) furnishes you with the following summarized balance sheet as at 31st March, 2022:

	(Rs. in Crores)	
Equity and Liabilities		
Share Capital:		
Authorised		100
Issued:		
12% Redeemable preference 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 reserves	260	300
Current Liabilities - trade Payables		40
		440
Assets		
Fixed assets: cost	100	
Less: Provision for depreciation	(100)	Nil
Non-current investments at cost (Market value Rs. 400 Cr.)		100
Current assets		340
		440

The company redeemed preference shares on 1st April, 2022. It also bought back 50 lakhs 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 a part of current assets.
You are asked to:
(i) Pass journal entries to record the above.
(ii) Prepare balance sheet as at 1.4.2022.

Solution
Journal entries in the books of B-22 Ltd.

			Rs. in crores
104.22	Particulars	Debit	Credit
1. a-	12% Preference share capital A/c	Dr. 75	
	To Preference shareholders A/c		75

155

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Red of Pref Sh. and buy back = 0%

① 12% Red. Pref. Sh. GP A/c Dr 75 ✓
To PSH 75 ✓

② PSH To Bank. 75 ✓
75 ✓

③ ESC Dr 5 ✓
From GP B.D. Dr. 25 ✓
To ESH 25 ✓

④ ESH To Bank. 25 ✓
25 ✓

⑤ Provision PSC & ESC
✓ Rev. Res. A/c Dr 80
To CRK 80
(75 + 5)

⑥ S.P. A/c Dr 20 ✓
To P.O. Dr 20 ✓

① ✓ BTSH To Equity GP 80
80 Cr ✓

② CRK To BTSH 80
80 ✓

Corporate Accounting and Auditing

	Particulars	Debit	Credit
	(preference share capital account transferred to shareholders account)		
b-	Equity Share Capital a/c (50,00,000 of Rs. 10)	Dr. 5	
	Premium payable on buy Back a/c (50,00,000 x 40)	Dr. 20	
	To, Equity Share buy Back a/c		25
	Amount due to Equity shareholders due to buy back		
2.	Security Premium a/c	Dr. 20	
	To, Premium Payable on buy Back a/c		20
3.	Security Premium a/c	Dr. 5	
	Revenue Reserves a/c	Dr. 75	
	To, CRR		80
	creation of capital redemption reserve to the extent of the face value of preference shares redeemed and equity shares bought back		
4.a	Preference shareholders A/c	Dr. 75	
	To Bank A/c		75
	(payment made to shareholders)		
b.	Shares buy back A/c	Dr. 25	
	To Bank A/c		25
	Actual payment to Equity shareholders on a/c of buy back		

(ii) Balance Sheet of B-22 Ltd as at 1.4.2022

Particulars	Note No	Rs. in Crores
1. 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
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(b) Non-current investments -Investment at cost (Market value Rs. 400 crores)	3	100 ✓
(2) Current assets		240 ✓
Total		340

Notes to Accounts

1. Share Capital		Rs. in crores
Authorised, Issued and Subscribed		
200 lakhs Equity shares of Rs. 10 each		20

156

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Buy Back of Securities & Equity Shares

2. Reserves and Surplus			
a Capital reserve	15		
b Capital redemption reserve	80		
c Securities premium	25		
Less: utilised for writing off Premium on buy back	(20)		
Less : 1/1 to CRR	(5)	Nil	
d Revenue Reserve	260		
Less: transfer to Capital redemption reserve	(75)	185	280
3. Fixed Assets			
Cost	100		
Less : Provision for depreciation	(100)	-	
4. Current assets			
Current assets	340		
Less: Payment for redemption and buy back	(100)		240

4.2
B- 333 Limited (a non-listed company) furnishes the following summarized Balance Sheet as at 31st March, 2022:

	Rs. '000	Rs. '000
Liabilities		
Share capital:		
Authorised capital		30,00
Issued and subscribed capital:		
2,50,000 Equity shares of Rs. 10 each fully paid up	25,00	
2,000, 10% Preference shares of Rs. 100 each (Issued two months back for the purpose of buy back)	2,00	27,00
Reserves and surplus:		
Capital reserve	10,00	
Revenue reserve	30,00	
Securities premium	22,00	
Profit and loss account	35,00	97,00
Current liabilities and provisions		14,00
		1,38,00
Assets		
Fixed assets		93,00
Investments		30,00
Current assets, loans and advances (including cash and bank balance)		15,00
		1,38,00

The company passed a resolution to buy back 20% of its equity capital @ Rs. 50 per share. For this purpose, it sold all of its investment for Rs. 22,00,000.
You are required to pass necessary journal entries and prepare the Balance Sheet.

15

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