buy back

Monday, 10 February 2025 6:13 PM



buy back

(creation of capital redemption reserve to the extent of the equity shares bought back) Section - 3 - Test of Buy - Back 3.1 - Test of Buy-Back M-444 Ltd. has the following capital structure on of 31st March 2018. Particulars Rs. in Crores a. Equity Share capital (Shares of Rs. 10 each) b. Reserves: General reserve Space (Statutory reserve) Soon Funds E. Joan Funds So of the capital 2018 a proposal to buy back maximum permissible equity shares considering the huge cash surplus following A/c of one of its divisions. The market price was hovering in the (range of Rs. 25) and in order to induce existing shareholders to offer their shares for buy back, it was deciden to other a price of 20% above market] Advice the company of maximum number of shares that can be bought back and record journal entries for the same assuming the buyback has been completed in full within the next 3 months. If borrowed funds were Rs. 1200 crores, and Rs. 1500 crores respectively would your answer change? Application of tests: Note : Solution is based on the assumption that company is not having surplus funds Test one : Shares 0tatstanding test : Max. No. of Shares that can be brought back = 25% of 30 = 7.5 crores of shares In this case total funds requirement shall be Rs. 7.5 crores of shares x Buy Back price per share that is Rs. 3 and in order to and the period pares tha	To Capital Redemption Reserve A/c		600				
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a) no f shavy of Step 1 5 30 (m. 30 x 250/0 = 7.5 (v. 6) 25-10: 25-). of SHF(2) Step 2

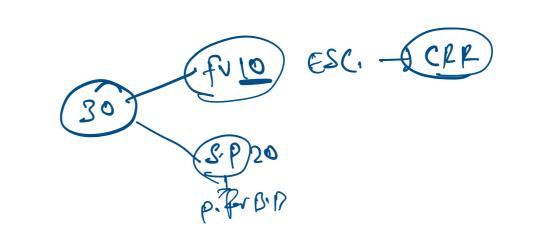
Poidup Opit-1 + free Reserves 720 (V) & x25-1. = 180 (V. B.B.P. 300 + 420 2 CCV. Nortshares 30: 4

Debt - Cabity Ratio: 2:1 608 5;1 1200 1250 (200 Debt DE Rotto Cevity(SHf) 800 2:1 400 1200 2:1 750 600 Present SHF 720 720 720 Maximum Amt Bri Couity dilution 320 120 NB ÷ B, B, P + FV لاه yo 30+10:40

No of Shars for B.B. 8 (v.

Step

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	Particulars	Situation one	Situation Two	Situation Three
а	Loan funds Rs. In crores	800	1,200	1,800
b	Minimum Equity to be maintained to keep Debt equity ratio at 2:1 Rs. In crores	400	600	900
C,	Present Equity	720	720	720
				149

3.5 -	Past	Exami	nation -	2016)

실패 집 이 가격 한 이 것이 많은 것이 없는 것 같이 없다.				
Following is the summarize	ad Balance She	et of B-221 imited	l as on 31st Mar	ch, 2019 :

Assets	Rs.	Assets	Rs.
Equity Shares of Rs. 10		Fixed Assets	46,50,000
each fully paid up -	12,50,000	Current Assets	30,00,000
Revenue reserve	15,00,000		
Securities Premium	2,50,000		
Profit & Loss Account	1,25,000		
Secured Loans:			
12% Debentures	18,75,000		
Unsecured Loans	10,00,000		
Current maturities of			
ong term borrowings	16,50,000		
Fotal	76,50,000	Total	76,50,000

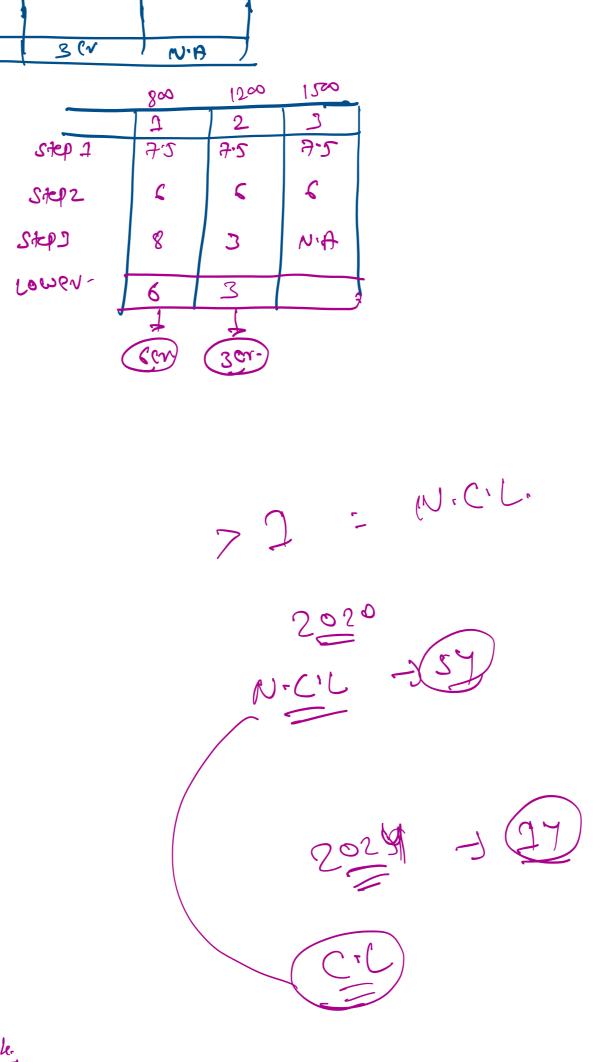
The company wants to buy back 25,000 equity shares of Rs. 10 each, on 1st April, 2019 at Rs. 20 per share Buy back of shares is duly authorized by its articles and necessary resolution has been passed by the company towards this. The payment for buy back of shares will be made by the company out of sufficien bank balance available shown as part of Current Assets. P. PM B. BIO IV:10

152

Complete Solution:

Determination of Buy back of maximum no. of shares as per the Companies Act, 2013

, Sral 1 Scanned with CamScanner Bolancesbeet offer Buy Dack. Comment with your calculations, whether buy back of shares by company is within the provisions of the Companies Act, 2013. If yes, pass necessary journal entries towards buy back of shares and prepare the Balance Sheet after buy back of shares. Equity and Liabilities A SHA Dr Sh. Copital : Equity



Step 7 . 'a)	900 f share old: 125000
bj	250/0 = 125000 x250/0 = 31250 shary
Step2:	SHF X2500 125000 + 187500 = 3125007

Joyvod Entries (2500x10)	Lieb ?	$(\gamma +)$
DESC 91. 25000 (2500 ×10 p.on B.B 91 250000 ~ TO ESH 500000 ~	Asset :	

 \sim

Partic			(Charge)	
I NILITIL.	ber of shares outstanding		(Shares) 1,25,000	B Non- Cament.
	of the shares outstanding		31,250	
2370 0			01,200	A) LTD
2. Resol	urces Test: Maximum permitted limit 25% of E	quity paid up capital + Free R	eserves	C const li
Partic		iquity paid up oupline a second	Rs.	(C) (<u>uwe</u> nt lie
	ip capital (Rs.)		12,50,000	
	eserves (Rs.) (15,00,000 + 2,50,000 + 1,25,000))	18,75,000	A) STO:
	holders' funds (Rs.)		31,25,000	
25% 0	f Shareholders fund (Rs.)		7,81,250	
Buy ba	ack price per share		Rs. 20	
Numbe	er of shares that can be bought back (shares)		39,062	
Actual	Number of shares for buy back		25,000	Asset
3. Debt E	quity Ratio Test: Loans cannot be in excess o	of twice the Equity Funds post	Buy Back	1. NCA:
	Particulars		Rs.	
(a)	Loan funds (Rs.) (18,75,000+10,00,000+16,50	0,000)	45,25,000	(d)
(b)	Minimum equity to be maintained after buy back	k All All All All All All All All All Al		
	in the ratio of 2:1 (Rs.) (a/2)		22,62,500	6 Non-Cawert
(c)	Present equity/shareholders fund (Rs.)		31,25,000	
(d)	Maximum permitted buy back of Equity (Rs.) [(c	c) - (b)]	8,63,500	
(f)	Maximum number of shares that can be bought	back @ Rs. 20 per share	43,175	2. Carros & Dee
			shares	a camera pro
(g)	Actual Buy Back Proposed		25,000 Shares	
	ry statement determining the maximum num			
Particula			of shares	Totol Asset
	Outstanding Test	31,250		
	ces Test	39,062	2.	
	uity Ratio Test	43,175		
	m number of shares that can be bought	31,250		
ack [lea	ast of the above] y qualifies all tests for buy-back of shares an			

Reserve & Surply	1	125000	
Non- convert liability			
a) lto		2875000	
Cawent Libility			
A) STO:		[[50000]]	
		715000	
Asset.			
y ca: a) ppe: (i) ta (i) t.ta		4650000	
Non-Cuwert Invert.		-	
Cawert Baset		200000	
Total Asset		715000	1

Nok. Z

000000

Step 3

: SHF X250 1250000 + 1975000 = 3125000 X257 781250 3	Ð	ESH ACC OV To Bayk.	D0000 .
- 20 39063 No of Share	T	Rev. Roz. Dr TOCRR	250000
Debt-ervity Ratio: 2:1	(4) L	S.P. DV To from a	
E) Debt(2) : 4525000 2	Note!	2 R85	
Guity (1) : 2262500 2	Rev. Reg. PSL	1250000	9) : (10)
present (SHF): 3125000 2	CRR.	250000	
Marrimen Gpitel: 862500 2 diluted. = BBP + F.V. = 30 28750 No of shares		1625000-	
(w.e. 1/3 lower) 28750 mareimlens 25000 S.R.	Limit Gr B.B.		

To Bank.	1 00002	
ev. poz. or 25 TOCRR	2,0000	
S.P. DV 2: T. from on D.		2
RSS	Note: 2.	N.C.L.: LTB
1250000	9) Jeb (10) Unser Ioan	1000000 1292aaa
2,0000		2895000
• 1		רי ת 1

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Debit Credi (Rs.) (Rs.) Dr. 5,00,000 (a) Equity shares buy-back account 5,00,000 (Being buy back of 25,000 equity shares of Rs. 10 each @ Rs. 20 Dr. 2,50,000 per share) (b) Equity share capital account Dr. 2,50,000 Securities premium account 5 00 0

	-					5,00,000
	TOE	quity shares buy-back account	:)			100
		ng cancellation of shares bought back		Dr.	2,50,000	
(c)	Reve	enue reserve account			Contractor	2,50,000
	To C	apital redemption reserve account	lemetion reserve t	to the		
	reser		bught back through	free		
Balanc	e She	eet as on 31st March, 2019			Note No	Amount
2000 g m	_	Particulars	a succession of the			- anount
		Equity and Liabilities				
		Shareholders' funds			1.	
	(a)	Share capital			1	10,00,000
		Reserves and Surplus	및 11 - 28 · 드 T - Sea	dina "S	2	16,25,000
	1	Non-current liabilities				
	(a)	Long-term borrowings	in the read	1.1. 1.9.2	3	28,75,000
		Current liabilities	the intervention	Sthe Dar Sec. 3		16,50,000
÷.		Total				71,50,000
		Assets	1 ² 3			
		Non-current assets	18 J. (18 J. 19	5 A	2 1 1 1 1 1 1 1	
	(a)	Fixed assets	in the state of			46,50,000
		Current assets (30,00,000-5,00,000))			25,00,000
	-	Fotal			2 <u>-</u> 2	71,50,000
es to	acco	unts		-		
				Rs.		Rs.
S	hare	Capital				
		share capital			stand La	
1,	00,00	0 Equity shares of Rs. 10 each				10,00,000
Re	eserv	es and Surplus	1			
Pr	ofit ar	d Loss A/c		1,25,0	000	1940
Re	venue	ereserves	15,00,000		10 1 1 1 1 1	
Les	ss: Tr	ansfer to CRR	(2,50,000)	12,50	.000	45.15
		s premium	2,50,000			
		lisation for share buy-back	(2,50,000)			
		edemption Reserves		2,50,0	00	16,25,000
Lor	ig-ter	m borrowings		2,50,0		10,20,000