

Buy back notes

⇒ Source for Payment on Buy back.  
for Payment of Capital  
a) free Reserves  
b) Securities Premium A/c.  
c) New share issued.

For Payment of Premium.

- a) Securities Premium A/c.
- b) other free Reserves

Note:- If Company don't have Adequate reserves then issue new shares [Equity & Profit]

QUANTUM for Buy Back [Sec. 68]

Step 1 : Share outstanding test

- a) No. of shares.
- b) 25% of No. of shares

Step 2 : Resource Test

- a) 25% of Share holder funds [paid up Capital + free reserves]
- b) No of share for buy back =  $\frac{\text{SHF}}{\text{Buy back Price}}$

Step 3 : Debt Equity Ratio maintained at 2:1 ✓

Note:- No of buy back will be lower of Above Steps.

⇒ Accounting Entries for buy back

Dr  
① Eg. Sh. Capital A/c Dr  
(if) Premium on buy back A/c Dr  
(if) To Gain on buy back (contra account)  
To Eg. Sh. holder.

Payment

② Eg. Share holder A/c Dr  
To Bank.

③ Provision for Capital

Sec. Prem. A/c Dr  
Free Reserve A/c Dr  
To C.R.R.

④ Provision for Premium

Sec. Prem. A/c Dr  
Free Reserve A/c Dr  
To Premium on buy back.

⑤ If gain on buy back (transfer to C.R.)

Gain on buy back Dr  
To Capital Reserve.

⑥ if any exp on buy back

a) Exp A/c Dr  
To Bank

b) Pst. A/c Dr  
To Exp.

if Shares are Partly Paid up then make it fully paid up.

a) Eg Sh. final call A/c Dr  
To Eg. sh. Capital.

b) Bank A/c Dr  
To Eg Sh. final call A/c.

eg. Wipro Ltd have 3000000 Eg Sh Capital in 200000 shares of ₹ 10 each. it resolved to buy back its equity shares (₹ 20000) Co. has following Reserves  
a) SP 400000 ✓  
b) G.R 1200000

(i) buy back of Share at ₹ 10

(ii) buy back @ ₹ 13 per share ₹ 32 from D.D

(iii) buy back @ ₹ 8 per share ₹ 23 Gain on D.D

(iv) buy back @ ₹ 14 per share but ₹ 15000, 15% prof. sh. of ₹ 10 each at ₹ 10.

(v) if equity shares are partly paid up and only ₹ 2 called up and now G. wants to buy back its share @ ₹ 9 per share.

Journal Entries for Buy Back.

| Particulars   | lf | Dr. (₹)          | Cr. (₹) |
|---|----|------------------|---------|
| 1) <u>at par</u> (10₹)  |    |                  |         |
| 1. <u>ESC A/c</u> <u>Dr</u><br><u>To</u> <u>ESH</u><br>(50000 x 10)   |    | 500000           | 500000  |
| 2. <u>ESH</u> <u>Dr</u><br><u>To</u> <u>Bank</u>  |    | 500000           | 500000  |
| 3. <u>G.R. A/c</u> <u>Dr</u><br><u>To</u> <u>C.R.R.</u>   |    | 500000           | 500000  |
| 4) <u>ESC A/c</u> (50000 x 10) <u>Dr</u><br><u>Proem. on B.B.</u> <u>Dr</u><br><u>To</u> <u>ESH</u><br>(50000 x 10) |    | 500000<br>150000 | 650000  |
| 2) <u>ESH A/c</u> <u>Dr</u><br><u>To</u> <u>Bank</u>  |    | 650000           | 650000  |
| 3) <u>G.R. A/c</u> <u>Dr</u><br><u>To</u> <u>C.R.R.</u>   |    | 500000           | 500000  |
| 4) <u>S.P. A/c</u> <u>Dr</u><br><u>To</u> <u>Prem on B.B.</u>   |    | 150000           | 150000  |
| 5) (i) <u>ESC A/c</u> <u>Dr</u><br>(50000 x 2) <u>To</u> <u>Gain on B.B.</u><br>(50000 x 2) <u>To</u> <u>ESH</u>    |    | 500000<br>100000 | 400000  |
| (ii) <u>ESH</u> <u>Dr</u><br><u>To</u> <u>Bank</u>  |    | 400000           | 400000  |
| (iii) <u>G.R.</u> <u>Dr</u><br><u>To</u> <u>C.R.R.</u>  |    | 500000           | 500000  |

Journal Entry Buy Back.

| Particulars   | lf | Dr. (₹)          | Cr. (₹) |
|---|----|------------------|---------|
| (iv) <u>Gain on B.B.</u> <u>Dr</u><br><u>To</u> <u>C.R.</u>   |    | 100000           | 100000  |
| 4) (i) <u>ESC A/c</u> <u>Dr</u><br>(ii) <u>Prem on B.B.</u> <u>Dr</u><br><u>To</u> <u>ESH</u><br>(50000 x 14)     |    | 500000<br>200000 | 700000  |
| (ii) <u>ESH</u> <u>Dr</u><br><u>To</u> <u>Bank</u>  |    | 700000           | 700000  |
| (iii) <u>Bank A/c</u> <u>Dr</u><br><u>To</u> <u>15% Prof. Sh. Gp</u><br>(15000 x 10)                              |    | 150000           | 150000  |
| (iv) <u>G.R.</u> <u>Dr</u><br><u>To</u> <u>C.R.R.</u><br>(50000 - 15000)  |    | 350000           | 350000  |
| (v) <u>S.P. A/c</u> <u>Dr</u><br><u>To</u> <u>Prem. B.B.</u>  |    | 200000           | 200000  |
| 5) <u>ESH (G)</u> <u>Dr</u><br>(i) <u>To</u> <u>ESC.</u>  |    | 150000           | 150000  |
| (ii) <u>Bank A/c</u> <u>Dr</u><br><u>To</u> <u>ES. fin. (G)</u>   |    | 150000           | 150000  |
| (iii) <u>ESC A/c</u> <u>Dr</u><br>(50000 x 1) <u>To</u> <u>Gain on D.D</u><br><u>To</u> <u>ESH</u><br>(50000 x 9) |    | 50000<br>400000  | 50000   |
| (iv) <u>ESH</u> <u>Dr</u><br><u>To</u> <u>Bank</u>  |    | 450000           | 450000  |
| (v) <u>G.R. A/c</u> <u>Dr</u><br><u>To</u> <u>C.R.</u>  |    | 500000           | 500000  |
| (vi) <u>Gain on B.B.</u> <u>Dr</u><br><u>To</u> <u>C.R.</u>   |    | 50000            | 50000   |