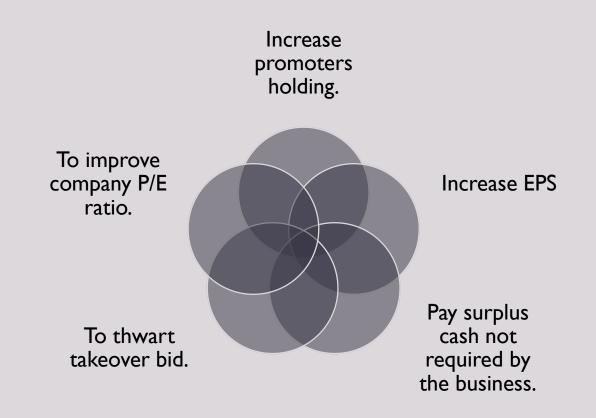
BUY BACK OF SHARES

CLASS I

BUY-BACK OF SHARES

- The provisions of buy-back of shares were introduced w.e.f 31-10-1998 in the Companies Act, 1956, SEBI regulations 1999.
- Section 68 of the Companies Act, 2013 gives power to company to purchase its own shares and other specified securities.
- Buy-back means the purchase by the buyer of something already sold by the said buyer.
- Buy-back of shares means the purchase of its own shares already issued by the company.
- It is a process by which a cash-rich company purchases and cancels some of its outstanding equity shares

OBJECTIVES OF BUY-BACK



LEGAL PROVISIONS OF BUY-BACK

By a private company and an unlisted public company:

Section 67-70 of the Act and Rule 17 of the Companies (
Share Capital & Debentures) Rules, 2014.

Listed Company: SEBI Regulations, 1998.

SOURCES OF BUY-BACK

Free reserves



Securities Premium

Proceeds of issue of any shares/specified securities

Includes
premium on
issue of shares,
deb, bonds or
other financial
instrument.

Note – Buy back of shares is not allowed out of proceeds of an earlier issue of same kind of equity

- Capital Redemption Reserve
 - Debenture Redemption Reserve
 - Share Forfeited Account
 - Revaluation Reserve
- Profit Prior to incorporation
- Statutory Reserve created under Income Tax Act (Not available for buy back)

PROVISIONS

where buy back is done out of free reserves or securities premium, then an amount equal to the nominal value of shares bought back must be transferred to 'Capital Redemption Reserve Account' [Sec 69]

CRR can be used only for issue of fully paid bonus shares

for purpose of Sec 68 free reserves means reserves available for distribution as dividend and includes balance of securities premium account.

Authorized by Articles

Conditions
for buy
back
[Section
68]

Special resolution

Three test conditions to be satisfied

#Outstanding share test

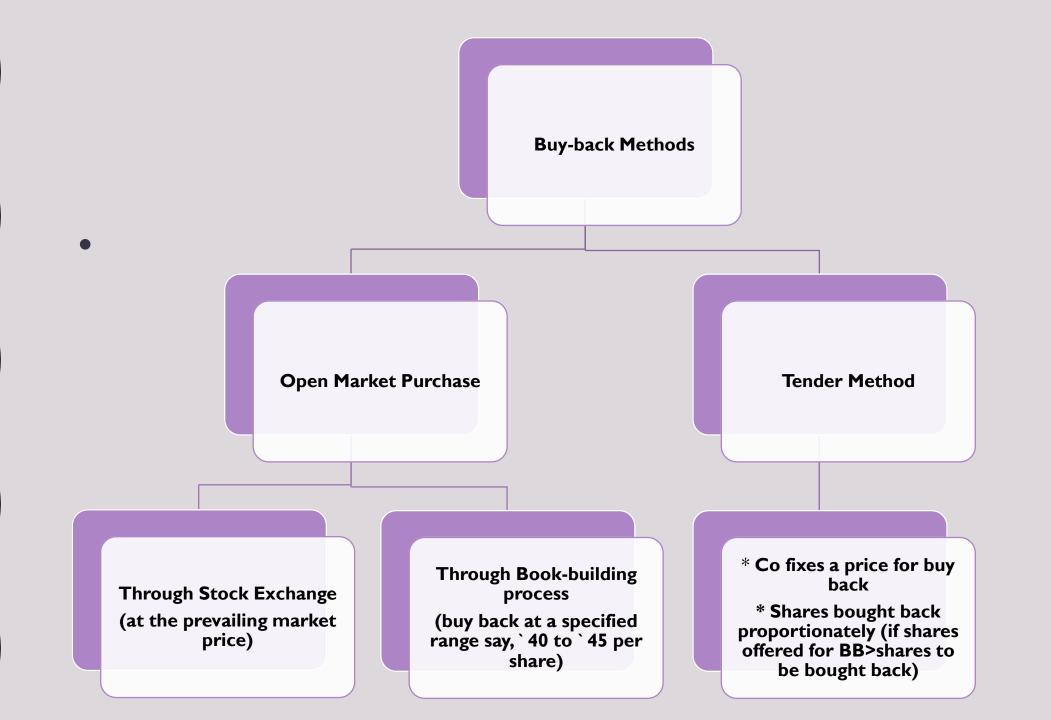
#Resource test

#Debt Equity Ratio test

Shares for buy back must be fully paid up

OTHER PROVISONS

- Notice of the meeting to be accompanied by explanatory statement of full disclosure of material facts.
- Buy-back to be completed within 12 months from passing of SR.
- Methods of buy-back.
- Declaration of insolvency with SEBI
- Destroy/Extinguish securities within 7 days of last date of completion of buyback
- Must not take further issue of same kind of sec within a period of 6 months except by way of bonus issue or in discharge of subsisting obligations.
- Maintain a register of bought back sec.
- Filing of return of buyback.



PROHIBITION OF BUY-BACK (SECTION 70)

No company shall directly or indirectly purchase its own shares

- through any subsidiary company including its own subsidiary companies; or
- Through any investment company or group of inv companies.
- If a default is subsisting in repayment of deposits or interest due thereon, redemption of debor or pref shares, payment of div, repayment of loan etc.

If a company has not complied with section 92 (filing of annual return), Section 123 (payt of div within 30 days of declaration), section 127 (Failure to distribute div), section 129 (Preparation of BS & P & L)- prohibited from buy-back

BUY BACK

Three Test conditions

- Resource test
 - No of shares to be bought back
 - = 25% of [paid up capital + free reserves]
 - Buy back price per share

BUY BACK

Three Test conditions

share Outstanding test

Buy back of equity shares in any financial year must not exceed 25% of total outstanding shares [25% of total paid up equity capital]

BUY BACK

- Three Test conditions
- Debt Equity Ratio test
- Must not be more than 2:1 after buy back
 - Debt not defined in the Act.
 - Debt means something 'owed' so it should include both long term and short term debt

The number of shares which can be bought back will be minimum of the above three figures. (from 3 tests)

MAXIMUM NUMBER OF SHARES TO BE **BOUGHT BACK**

(a) If all the shares are bought back out of fresh issue of other kind of shares:

Number of shares = $\frac{\text{Existing total capital and free reserves} - \frac{1}{2} \text{(secured and unsecured debts)}}{\frac{1}{2}}$ Buy - back price per share

(b) If all the shares are bought back out of free reserves:

Existing total capital and free reserves - nominal value per share $\times x^* - \frac{1}{2}$ (secured and unsecured debts) Number of shares = -Buy - back price per share

Where x is the maximum number of shares to be bought under this criteria. Alternatively, it may be calculated as follows:

Existing total capital and free reserves $-\frac{1}{2}$ (secured and unsecured debts) Buy - back price per share + Nominal value per share Number of shares =

(c) If shares are bought back partly out of free reserves and partly out of fresh issue of other kind of shares:

Existing total capital and free reserves - Percentage of shares bought back out of free reserves × (nominal value per share $\times x^{\bullet}$) - $\frac{1}{2}$ (secured and unsecured debts)

Buy-back price per share Number of shares =

Where x is the maximum number of shares to be bought back under this criteria

ACCOUNTING ENTRIES

Transactions/events	Journal entries
(i) To make the partly paid equity shares, if any, fully paid up (The reason is that only fully paid up shares can be bought back)	(a) On making final call Equity Share Final Call A/c To Equity Share Capital A/c (b) On receipt of final call/use of free reserves Bank A/c/Free Reserves A/c To Equity Share Final Call A/c Dr.
	Note: It may be noted that free reserves may be used to make the partly paid shares fully paid up only when such equity shares are of the same nominal value and are also unpaid by the same amount. If the shares are of different nominal values or are unpaid by different amounts even though of the same nominal value, cash will be called for from the shareholders to make them fully paid because in such a case, all the shares are not at par.
(ii) To sell property, plant and equipment or any intangible assets/investment/current assets or to issue shares/take long-term/short-term loan to provide cash for buy-back* This is done only for the purpose of arranging resource for buy-back. Scanned with CamScanner	Bank A/c Discount on Issue of Shares A/c Dr. (sale proceeds) Dr. P&L A/c* Dr. (loss on sale) To Respective Investment A/c/PPE or Intangible Asset A/c/Current Asset A/c/Long-term Loan A/c/Short-term Loan A/c/Share Capital A/c/Securities Premium A/c To P&L A/c* (profit on sale) *Note: Only either of the two will appear and not both in one transaction of sale.

ACCOUNTING ENTRIES

(iii) To issue other kinds of fresh shares or securities (say	(a) On receipt of application money	
preference shares)*	Bank A/c To Preference Share Application A/c	Dr.
*This will serve the purpose of source and resources both.	(b) On allotment If allotted at par:	
	Preference Share Application A/c To Preference Share Capital A/c If allotted at premium:	Dr
	Preference Share Application A/c To Preference Share Capital A/c To Securities Premium A/c	Dr
(iv) In case of a private company or an unlisted public company, it has to open a separate bank A/c as per <i>rule</i> 17(8) of the Companies (Share Capital and Debentures) Rules, 2014.	Share Buy-back Bank A/c* To Bank A/c *Deposit of the required sum based on the amount due of shares tendered for buy-back is made immediately after the date of closure of buy-back offer.	
(v) To buy-back securities out of either free reserves or Securities Premium A/c used as sources of buy-back.	Securities Premium A/c	D
	Revenue Reserve A/c	D
	P&L A/c To Capital Redemption Reserve (CRR) A/c Note: CRR A/c can be used only for issuing fully	Daidun
	bonus shares to the members.	Paid up

ACCOUNTING ENTRIES

	comas snares to the memoers.	
(vii) Payment to aguity should be	Equity Share Capital A/c Premium payable on Buy-back A/c* (premium, if any) Di To Equity Shareholders A/c/Equity Share Buy-back A/c** (amount payable) To Capital Reserve A/c* (discount, if bought back at less than the nominal value) *Either of the two will appear and not both in the same case. If bought back at par, neither will appear *Better term will be Equity Share Buy-back A/c	
(viii) Payment to equity shareholder (viii) Adjustment of premium payable on buy-back	Equity Shareholders A/c/Equity Share Buy-back A/c* Dr. To Bank A/c (in case of listed company) or To Share Buy-back Bank A/c (in case of unlisted company) *Better term will be 'Equity Share Buy-back A/c'	
	Securities Premium A/c Revenue Reserve A/c P&L A/c Dr.	
(ix) Payment of buy-back expenses (x) Transfer of buy-back expenses	To Premium payable on Buy-back A/c Buy-back Expenses A/c To Bank A/c Dr	
(xi) For tax (@ 20%) on distribute 1:	P&L A/c To Buy-back Expenses A/c Dr	
of shares by an unlisted company Note: Distributed income = Buy-back price - issue price under Section 115QA of Income Tax Act, 1961. Scanned with CamScanner	(a) For payment of tax on distributed income: Tax on Distributed Income upon Buy-back of Shares A/c To Bank A/c (b) P&L A/c/General Reserve A/c To Tax on Distributed Income upon Buy-back of Shares A/c	