

Buy Back Of Shares

Q.1. The following was the Balance Sheet of Diamond Ltd. as on 31st March of a year -

Liabilities	Rs. LAKhs	Assets	Rs. Lakhs
10% Redeemable Pref. Sh. of Rs.10 each, fully paid up	2,500	Fixed Assets	14,000
Equity Shares of Rs.10 each fully paid up	8,000	Investments	3,000
Capital Redemption Reserve	1,000	Cash at Bank	1,650
Securities Premium	800	Other Current Assets	8,250
General Reserve	6,000		
Profit and Loss Account	300		
9% Debentures	5,000		
Sundry Creditors	2,300		
Sundry Provision	1,000		
Total	26,900	Total	26,900

On 1st April, the Company redeemed all its Preference Shares of a premium of 10% and bought back 25% of its Equity Shares of Rs.20 per share. In order to make cash available, the Company sold all the investments for Rs.3,150 lakhs and raised a Bank Loan amounting to Rs.2,000 lakhs on the security of the Company's plant.

Pass journal entries for the above and prepare the Company's Balance Sheet immediately thereafter. The amount of Securities Premium will be utilized to the maximum extent allowed by law.

Q.2. Decision Makers Ltd. has the following capital structure on of 31st March –

Particulars	Rs.Crores
(a) Equity Share Capital (Shares of Rs.10 each)	300
(b) Reserves	
General Reserve	270
Securities Premium	100
P & L A/c	50
Export Reserve (Statutory Reserve)	80
(c) Loan Funds	800

On the recommendation of the Board of Directors, the Shareholders have approved vide special resolution at their meeting on 10th April a proposal to buyback the maximum permissible Equity Shares considering the huge cash surplus following sale of one of the Company's divisions.

The Market Price was around Rs.25 and in order to induce existing shareholders to offer their shares for buy back, it was decided to offer a price of 20% above the Market price.

Advice the Company on the maximum number of Equity Shares that can be bought back and record journal entries for the same assuming the buy-back has been completed in full within the next 3 months.

If borrowed funds were Rs.1200 Lakhs and Rs.1500 Lakhs respectively would your answer change ?

