**BUY BACK OF SHARES**

 **Meaning:** Buy back of shares means purchasing or buying of equity shares of a company by the company itself.When a company utilizes its surplus money in purchasing its own equity shares, it is called buy back of shares.It is a method by which a company cancels a part of its own capital there by reducing paid up capital. The authorized or registered capital of the company is not affected.

**Merits/advantages/uses/importance of buy back of shares:**

1)Avoidance of corporate dividend tax.

2)Increases earning per share(EPS).

3)Increae in proportionate holding of promoters thereby reducing takeover risk.

4)Helps in restructuring of capital as cash resources is used for buy back instead of dividend distribution.

Demerits/disadvantages/danger of buy back of shares:

1)Increases in risk of manipulation of stock price by management.

2)There is possibility of insider trading incase of buy back of shares.

**Legal conditions for buy back of shares: Section 68 and 70 of Companies Act 2013 contains provisions for buy back. They are:**

1)Buy back of shares has to be authorized by Articles of Association of the company.

2)If buy back of shares is more than 10% but less than 25% of the paid up capital and free reserves of the company then a special resolution has to be passed in the general meeting of the company for authorizing buy back. If buy back is 10% or less of the paid capital and free reserves of the company then board of directors is authorized to buy back by passing resolution in the board meeting.

3)After buy back of shares the Debt Equity ratio has to be 2:1.

4)All the shares has to be fully paid for buy back.

5)Guidelines given by SEBI(Securities Exchange board of India) has to be followed.

6)After buy back of shares a company shall file a return with the Registrar and SEBI containing such particulars about buy back within 30 days of such completion.

**Restrictions on buy back of shares (Sec 70 of Companies Act 2013):**

1)A company cannot directly or indirectly purchase its own shares through any subsidiary company including its own.

2)A company cannot purchase its own shares through any investment company or group of investment companies.

3)A company cannot buy back shares if there is default in subsisting in repayment of deposit or interest payable thereon, redemption of debentures or preference shares or payment of dividend or repayment of any term loan or interest thereon to any financial institution or bank.

**Sources of funds for buy back of shares:**

1)Free reserves.

2)Securities Premium Account

3)Proceeds of fresh issue( Buy back of equity shares cannot be bought back out of the proceeds of same class of equity shares, so proceeds has to be of different class of shares)

**Time limit: Sec. 68(4) of the Companies act 2013 has prescribed time limit of 12** **months for completion of the procedure of buy back of shares.**

**Shares to be picked up for buy back:**

1)From existing shareholders on proportionate basis.

2)From the open market.

3)From employees to whom shares were issued on the basis of Employees Stock Option Scheme.

**Declaration of** **Solvency**: According to Sec. 68(6) of the Companies Act 2013, a company has to file a declaration of solvency signed by atleast two directors to the Registrar and SEBI confirming that the company is capable of meeting its liabilities and will not be rendered insolvent within one year of the declaration adopted by Board for buy back.

**Method of fixation of price for buy back:**

1)The company may fix a price for buy back and invite shareholders to offer their shares at that price within specified time.

2)The company may announce a range of price called **BAND** and invite shareholders to submit tenders within specified time offering shares within announced BAND. The company will choose the lowest price to buy back its shares and all the shareholders whose shares are bought back will get the same price.

**Oversubscription**: If shares offered for buy back is more than the total number of shares intended to be bought back by company, then all applications are accepted and buy back is bought on pro rata basis.

**Escrow Account**: Escrow account means an account where money is held by the company until specific duty is completed. In buy back of shares an Escrow Account means an account where a specified percentage of total consideration payable for buy back is deposited till it has been paid to the shareholders whose shares are bought. The money is deposited in a Scheduled Commercial Bank.

**Duties after buy back:**

1)The company is required to extinguish and physically destroy the shares bought back within seven days of the last date of completion of buy back.

2)If the shares have been bought out of fresh issue then the company is the required to transfer an equal amount to the nominal value of equity shares redeemed out of profits to an account called Capital Redemption Reserve Account.

3)The company is required to file a return of buy back of shares in the prescribed form to the Registrar and SEBI within a period of thirty days of completion of buy back.

**Disability of the company after buy back**: According to Sec. 68(8) of the Companies Act 2013 after buy back of shares a company cannot make further issue of the same kind of shares including allotment within a period of six months. However the company can issue bonus shares.

**Accounting Treatment of buy back of shares: The journal entries are as follows:**

**1) For issue of Preference share/Debuntures/other securities for buy back:**

Bank A/c Dr.

 To Preference Share Capital A/c

 To Debuntures/ Other Security A/c

 To Securities Premium Reserve A/c (if any)

**2) Amount paid to shareholders against buy back:**

Equity Shareholders A/c Dr.

 To Bank A/c

**3) For cancellation of Equity share capital on buy back at par/face value/nominal value:**

Equity Share Capital A/c Dr. [Nominal value of shares purchased]

 To Equity Shareholders A/c

**4) For cancellation of Equity Share Capital on buy back bought back at premium:**

Equity Share Capital A/c Dr. [Nominal value of shares purchased]

General Reserve A/c Dr.

Securities Premium Reserve A/c Dr.[ Amount of premium]

 To Equity Shareholders A/c [Amount paid]

**5) For cancellation of Equity Share Capital on buy back bought back at discount:**

Equity Share Capital A/c Dr.[ Nominal value of shares purchased]

 To Capital Reserve A/c [ Discount Amount]

 To Equity Shareholders A/c[ Amount paid]

**6)If buy back is made out of free reserves an amount equal to nominal value of shares bought back shall be transferred to Capital Redemption Reserve Account:**

Securities Premium Reserve A/c / Dr.

General Reserve A/c / Dr.

Free Reserve A/c / Dr.

Surplus in the statement of Profit and Loss Dr.

 To Capital Redemption Reserve A/c

**7) For expenses on buy back:**

Expenses on Buy back A/c Dr.

 To Bank A/c

**8) Treatment of expenses on Buy back: It can be treated in any of the following ways:**

a) Statement of Profit and Loss Dr.

 To Expenses on buy back A/c

b) General Reserve A/c Dr.

 To Expenses on buy back A/c