

Question 5. What are the uses of securities premium? Answer When securities like shares and debentures are issued to public more than their face value the excess is called security premium. As per the Section 78 of the Companies Act 1956, the amount of securities premium can be used by the company for the following purposes

- (i) For paying up unissued shares of the company to be issued to members (shareholders) of the company as fully paid bonus share.
- (ii) For writing off the preliminary expenses of the company.
- (iii) For writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.
- (iv) For paying up the premium that is to be payable on redemption of preference shares or debentures of the company.
- (v) Further, as per the Section 77A, the securities premium amount can also be utilised by the company to buy-back its own shares.

Question 6. What is buy-back of shares?

Answer When a company repurchase its own share from the market to reduce the number of share it is called buy-back of shares. As per the Section 77A of the Companies Act, 1956 the procedure for buy back of share would be as follows

- (i) First of all the Articles of the Association must authorise the company for the buy-back of shares.
- (ii) A special resolution must be passed in the companies' Annual general body meeting.
- (iii) The amount of buy-back of shares should not exceed 25% of the paid-up capital and free reserves.
- (iv) The debt-equity ratio should not be more than a ratio of 2:1 after the buyback.
- (v) All the shares of buy-back should be fully paid-up.
- (vi) The buy-back of the shares should be completed within 12 months from the date of passing the special the resolution.
- (vii) The company should file a solvency declaration with the Registrar and' SEBI which must be signed by at least two directors of the company. -

Sources for Buy-back of Share

- (i) Free reserves.
- (ii) Securities premium account.
- (iii) Proceeds of any shares or other specified securities, provided that no buy-back of any kind of shares or other specified securities shall be made out of the proceeds of the earlier issues of the similar kind of shares or specified securities.

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