

## Treasury Stock

- When a corporation purchases its own stock
- Done for strategic reasons
  - Use shares to acquire another corporation
  - Remove shares from the hands of investors to avoid a hostile takeover
  - To obtain shares to reissue to employees as compensation
  - To reduce shares on the market to maintain a strong market for the corporation's stock
- Not an asset – contra-equity. The value of Treasury Stock reduces total stockholder's equity on the balance sheet.
- Normal balance is debit
- Does not receive dividends and does not confer any other benefits of stock ownership
- Treasury stock shares are deducted from issued shares when computing dividends
- Treasury stock is put on the books and taken off the books at **COST**
- Treasury stock may be re-issued at any time for an amount greater than or less than cost
  - When treasury stock is sold for an amount greater than cost, it creates Paid-in Capital, Treasury Stock
  - When treasury stock is sold for an amount less than cost, it eliminates any additional paid-in capital from previous treasury stock sales. Once that amount is eliminated, any additional excess of cost over sales price comes out of Retained Earnings.

## Stockholder's Equity Section of the Balance Sheet

Recall that owner's equity is the owner of a sole proprietorship's rights or claims to assets in the business. With the corporate form of organization, the owner's equity section of the balance sheet will be replaced with **stockholder's equity**. The stockholder's equity section of the balance sheet contains basically four items:

- Par value of issued stock
- Paid-in capital in excess of par
- Retained Earnings
- Treasury Stock

Each class of stock will be displayed separately showing its par value and paid-in (or contributed) capital.

Retained earnings represents cumulative net income not distributed (in dividends) to stockholders. The calculation of current retained earnings can be shown in a schedule known as the Statement of Retained Earnings. See page 523 of your accounting text for an example. To determine ending retained earnings to be reported on the current balance sheet, follow the outline below:

Beginning Retained Earnings  
 Plus Net Income (Less Net Loss) for the Current Year  
 Less Cash Dividends Declared in the Current Year

Treasury stock is stock reacquired by the issuing corporation. Treasury stock does not confer any ownership rights and does not receive dividends. Treasury stock is a contra-equity account and reduces the balance of stockholder's equity.

### Example of Stockholder's Equity Section of the Balance Sheet

Assets		Stockholder's Equity	
Cash	39,500	Common Stock-\$10 par; 10,000 shares	
Other Assets	105,000	authorized and issued; 1,000 shares in treasury	100,000
		Paid-in Capital in Excess of Par Value, Common Stock	20,000
		Preferred Stock-\$25 par; 5,000 shares	
		authorized and issued	125,000
		Paid-in Capital in Excess of Par Value, Preferred Stock	25,000
		Retained Earnings	12,500
		Less Cost of Treasury Stock	(18,000)
Total Assets	144,500	Total Stockholder's Equity	144,500