

PRINCIPLES OF ACCOUNTING II
ACC 122

TREASURY STOCK

1. A Corporation may acquire shares of its own stock.
2. These shares are known as treasury shares and may be acquired to:
 - a. avoid a hostile takeover.
 - b. be reissued to employees as compensation.
 - c. help its shareholders get a better price for their shares.
3. Acquired treasury shares are recorded at cost.
4. Treasury stock is not considered an asset of the corporation. It is a reduction in stockholder's equity.
5. Cash dividends and stock dividends are not paid on treasury shares.
6. Management must be sure the purchase of treasury shares is in the best interest of all stockholders.

Journal Entries:

April 2, 19X1 Purchased 100 of its outstanding common shares for \$18 per share:

Treasury Stock, Common	1,800	
Cash		1,800

May 15, 19X1 Sold 50 shares of the previously purchased treasury stock for \$25 per share:

Cash	1,250	
Treasury Stock, Common		900
Contributed Capital,		
Treasury Stock Transactions		350

July 20, 19X1 Sold remaining 50 treasury shares for \$10 per share:

Cash	500	
Contributed Capital,		
Treasury Stock Transactions	350	
Retained Earnings	50	
Treasury Stock, Common		900