Journal of Accountancy

Volume 58 | Issue 4 Article 7

10-1934

Correspondence: Treasury Shares

C. C. Hale

Correspondence

TREASURY SHARES

Editor, THE JOURNAL OF ACCOUNTANCY:

SIR: During the last year and one half many articles have been published in regard to the balance-sheet display where a corporation is the owner of its own shares of stock. The discussion originally was started by articles which were written early in 1933 by Robert E. Payne working with the Chicago Bar Association in drafting the new Illinois business corporation act, and by Anson Herrick, who was working with Professor Ballantine in the drafting of the California act.

Since that time articles have been appearing more and more frequently until in the August issue of THE JOURNAL there appear three different articles and one letter all dealing with this subject.

It seems to me that in the beginning there were two very distinct "camps" but that now all writers are gradually approaching a common meeting ground. Articles such as the one by Henry Rand Hatfield in the August issue will do much to bring the question to a happy conclusion although many readers of Mr. Hatfield's article may have experienced an unsatisfied feeling because of having expected the "old master" to draw more definite conclusions indicating more definitely his exact feeling in the matter. In general it seems to me that most of the other authors have been too busy arguing the point as to whether accountants should recognize legal concepts or not and have forgotten the main issue at stake. It seems to me that whether we should or should not recognize legal concepts depends entirely upon the question of adequate and proper as well as complete display of important facts. To show the cost of treasury shares as a deduction from capital and surplus combined or surplus seems to me to accomplish many things which other forms of display do not accomplish. For example:

1. It may be arranged distinctly to disclose the amount issued and outstanding in the hands of the public.
2. The total stated capital, which is not shown by other methods of display.
3. The cost of the treasury shares owned, which is not shown by most of the other methods of display.
4. It avoids a fictitious capital surplus, which may or may not be realized, depending on whether the corporation later sells or cancels the stock.
5. It at least indicates by showing the cost of the shares, the amount by which surplus may be restricted for the payment of future dividends.

It seems to me, therefore, that the deduction of the cost of treasury shares owned from capital and surplus combined or from surplus does everything that any other method of display does and does some other things which are of vast importance.

Yours truly,

C. C. HALE

Chicago, Illinois, August 21, 1934.