

**Statement of
Financial Accounting Standards
No. 30**

7 July 2000

Translated by

Chung-yuan Hsu, Professor

Revised on 22 June 2006

Translated by

Chung-Yuan Hsu, Professor

(National Chengchi University)

Financial Accounting Standards Committee

Statement of Financial Accounting Standards No.30

Accounting for Treasury Stocks

I Introduction

- (1) This Statement establishes the accounting standards for treasury stocks.
- (2) Treasury stock discussed in this Statement is the stock that is reacquired by the issued company, which is not retired.
- (3) If a subsidiary holds its parent's stocks, the parent should account for the stocks as its own treasury stocks when the parent recognizes the investment income and prepares its financial statements (including consolidated financial statements); the provisions of this Statement should be applied.

II Explanation

- (4) When a company acquires treasury stocks, it essentially reduces its outstanding shares. The cost of treasury stocks, therefore, is a contra account of owners' equity rather than an asset on the balance sheet.
- (5) Since treasury stock transactions are viewed as a change in paid-in capital, therefore, the price difference in treasury stock transactions is directly reflected under stockholders' equity rather than recognized on the income statement.
- (6) The economic substance of the subsidiary holding its parent stocks is equivalent to the parent holding its own stocks. Therefore, the parent stocks held by subsidiary are accounted for as its own treasury

stocks when the parent recognizes the investment income and prepares financial statements (including consolidated financial statements).

- (7) The stockholder's rights of treasury stocks, such as the right to receive dividends, to vote, to exercise preemptive rights as a stockholder, or to receive residual assets upon liquidation etc., may be restricted by law, therefore, such restrictions are usually disclosed in the footnotes to the financial statements.
- (8) The quantity and related restrictions in connection with the company's possession of treasury stocks may affect the interest of its creditors and stockholders. Therefore, it is appropriate for the company holding treasury stocks to disclose related laws and regulations, articles or agreement governing the restrictions on treasury stock transactions and earnings distribution.

III Accounting standards

Accounting for the obtaining of treasury stocks

- (9) When a company acquires its outstanding shares as treasury stock, the acquisition cost should be debited to the *treasury stock* account if the shares are purchased; the fair value should be debited to the *treasury stock* account if the shares are donated.

Accounting for the disposal of treasury stocks

- (10) When treasury stocks are sold, if the selling price is above the book value, the difference should be credited to the *capital surplus – from treasury stock transactions* account. If the selling price is below the book value, the difference should first be offset against capital surplus from the same class of treasury stock transactions, and the remainder, if any, debited to retained earnings.
- (11) When the company's treasury stocks are transferred upon the exercise of stock warrants by its stockholders, the sum of the exercise price and the carrying value of such warrants should be used as the

selling price of the treasury stocks.

- (12) When the company's treasury stocks are transferred upon the excise of convertible securities, the carrying value of such convertible securities should be used as the selling price of the treasury stocks.

Accounting for the retirement of treasury stocks

- (13) When a company's treasury stock is retired, the *treasury stock* account should be credited, and the *capital surplus – premium on stock* account and *capital stock* account should be debited proportionately according to the share ratio. An excess of the carrying value of treasury stock over the sum of its par value and premium on stock first be offset against capital surplus from the same class of treasury stock transactions, and the remainder, if any, debited to retained earnings. An excess of the sum of the par value and premium on stock of treasury stock over its carrying value should be credited to capital surplus from the same class of treasury stock transactions.

Determination of the carrying value of treasury stocks

- (14) The carrying value of treasury stocks should be calculated by using the weighted-average approach according to the same class of treasury stock (common stock or preferred stock) respectively. It is also allowed to calculate the weighted-average cost according to the acquisition reason.

Parent company stocks held by its subsidiary

- (15) A parent company should account for its outstanding stocks held by its subsidiary as treasury stocks when it recognizes the investment income and prepares financial statements (including consolidated financial statements).

Financial statements presentation

- (16) When a company prepares its financial statements, the carrying value of treasury stock should be classified as a contra account under

stockholders' equity.

- (17) When a company holds treasury stocks during the reporting period of the financial statements, the following items should be disclosed in the footnotes to financial statements:
- (a) the changes in quantity of treasury stocks according to acquisition reasons respectively;
 - (b) the restrictions imposed by law, articles or agreement on the quantity and amount of outstanding stocks reacquired;
 - (c) the restrictions imposed by law, articles or agreement on the terms and amount of earnings distribution arising from the company's holding of treasury stocks; and
 - (d) the restrictions imposed by law on the stockholder's rights.
- (18) If the subsidiary holds its parent company's stock during the financial statements reporting period, the parent company should provide pro forma information on the income statement and also disclose the number of shares and carrying value of its own stocks that the subsidiary purchased, the number of shares and selling price of stock resold by the subsidiary, and the number of shares and market value of stocks that subsidiary holds at the end of the period.

The above-mentioned pro forma information is the pro forma amount and pro forma earnings per share of *net income (loss) from continuing operations* and *net income (loss) for the current period*, calculated as if the subsidiary invests in the parent company rather than holds it as treasury stocks.

IV Notes

- (19) The retroactive adjustment is not required for treasury stocks that were acquired before the effective date of this Statement.

- (20) This Statement was issued on July 7, 2000. This Statement was first revised on July 20, 2006.
The first revision of this Statement shall be effective for financial statements with fiscal years beginning on or after January 1, 2006. Early adoption is permitted.

The provisions of this Statement need not be applied to immaterial items.