COMMON STOCK & TREASURY STOCK

COMMON STOCK – the basic voting stock issued by a corporation to stockholders.

- **AUTHORIZED SHARES** – the maximum number of shares of capital stock of a corporation that can be issued, as specified in the charter.
- **ISSUED SHARES** – the total number of shares of stock that have been sold.
- **OUTSTANDING SHARES** – issued shares that are currently held by stockholders other than the corporation itself.
- **PAR VALUE** – a nominal value per share established in the corporate charter – is a token amount and has no relationship to the market value of the stock.
- **NO-PAR VALUE** – does not have a specific legal value per share.

ISSUANCE OF STOCK (IPO) – An initial public offering involves the very first sale of a company's stock to the public.

Example: A company issued 3 million common stock shares, at $30 per share, par value $1 per share, in an IPO. The entry to record this sale is as follows:

Cash	$90,000,000	
Common Stock (3,000,000 x $1.00(par value))		$3,000,000
Additional Paid-In Capital (3,000,000 x $29.00 (issued price – par value))		$87,000,000

# of shares outstanding – 3,000,000

REPURCHASE OF STOCK (treasury stock) – A corporation may want to repurchase its stock from existing shareholders for a number of reasons:

- To send a signal to investors that the company itself believes its own stock is worth purchasing.
- To obtain shares that can be reissued as payment for purchases of other companies.
- To obtain shares that can be reissued to employees as part of employee stock plans that provide workers with shares of the company's stock as part of their pay.

Example: A company repurchases 1 million common stock shares for $35 per share. The entry to record this transaction is as follows:

Treasury Stock (1,000,000 x $35.00)	$35,000,000	
Cash (1,000,000 x $35.00)		$35,000,000

# of shares outstanding – (3,000,000 – 1,000,000) = 2,000,000

SALE OF TREASURY STOCK – A corporation can reissue the shares in treasury stock to the market.

Example: A company reissued 500,000 shares of treasury stock to the market for $40 per share.

Cash		
(500,000 x $40.00)	$20,000,000	
Treasury Stock		
(500,000 x $35.00)		$17,500,000
Additional Paid-In Capital – Treasury Stock		
(500,000 x $5.00)		$2,500,000

Example: A company reissues 500,000 shares of treasury stock to the market for $30 per share.

Cash		
(500,000 x $30.00)	$15,000,000	
Additional Paid-In Capital – Treasury Stock		
(500,000 x $5.00)	$2,500,000	
Treasury Stock		
(500,000 x $35.00)		$17,500,000

# of shares outstanding – (2,000,000 + 500,000) = 2,500,000

***When recording these entries, remember the phrase – in at cost, out at cost. Whatever was paid for the treasury stock is what gets removed from the treasury stock account, no matter how much money per share was received.**

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