Treasury Stock (Cost Method) Master Reference Sheet

Acquisition, Resale Above/Below Cost, Balance Sheet Contra-Equity & Zero-Income Rule | US GAAP

1. CORE NATURE & BALANCE SHEET PRESENTATION

Treasury Stock is a corporation's own issued shares reacquired from the open market. Under the standard **Cost Method**, shares are debited at total purchase price regardless of par value. It is reported as a **contra-stockholders' equity account (debit balance)** reducing total equity. Treasury shares carry NO voting rights and receive NO dividends.

2. THE 3 CRITICAL TREASURY TRANSACTIONS

Transaction Scenario	Journal Entry Format	Financial Accounting Rule
1. Initial Repurchase **(Bought 1,000 shares @ $30 cash)**	**Dr. Treasury Stock ..... $30,000** Cr. Cash $30,000	Recorded at pure purchase cost. Par value and original APIC accounts are untouched.
2. Resale Above Cost **(Sold 400 shares @ $35 cash)**	**Dr. Cash (400 × $35) ..... $14,000** Cr. Treasury Stock (400 × $30 cost) ..... $12,000 **Cr. APIC - Treasury Stock $2,000**	**Zero Income Statement Effect:** Excess proceeds are credited to APIC. A company cannot earn income trading in its own shares!
3. Resale Below Cost **(Sold 400 shares @ $22 cash)**	**Dr. Cash (400 × $22) ..... $8,800** **Dr. APIC - Treasury Stock ..... $2,000** **Dr. Retained Earnings (deficiency plug) .... $1,200** Cr. Treasury Stock (400 × $30 cost) $12,000	Deficiency is debited first to existing APIC - Treasury Stock balance. Once depleted, the remaining deficiency debits **Retained Earnings**.