

ABSTRACT 37

UITF abstract 37
Purchases and sales of own shares

(Issued 28 October 2003)

The issue

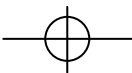
Companies legislation allows certain companies to purchase their own shares and hold them in treasury without cancelling them. A company that holds treasury shares is subsequently allowed to sell them. Companies legislation also allows certain subsidiaries to purchase, hold or sell shares in their holding companies. The issue is how an entity should account for purchases and sales of own shares. 1

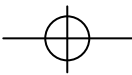
This Abstract does not apply to an entity's own shares held by an ESOP trust (the accounting for which is specified in UITF Abstract 13 'Accounting for ESOP Trusts'). The recognition of the costs of awards to employees that take the form of shares or rights to shares is dealt with in UITF Abstract 17 'Employee share schemes'. 2

The Statement of Principles for Financial Reporting (Chapter 4) addresses the treatment of increases or decreases in an entity's ownership interest that result from transactions with owners in their capacity as owners. Such transactions are referred to as 'contributions from owners' and 'distributions to owners'; these elements of financial statements do not give rise to gains or losses. Distributions to owners include the payment of dividends and the return of capital. The Statement gives the purchase by a company of its own shares as an example of a return of capital, which is reflected in financial statements by reducing the amount of ownership interest. Ownership interest is defined as a residual interest, ie the amount that results from deducting all of an entity's liabilities from all of its assets. 3

An entity's purchase of its own shares gives rise to a reduction in the entity's ownership interest, not an asset. This principle is reflected in FRS 4 'Capital Instruments' (paragraph 39), which states "Where shares are repurchased or redeemed, shareholders' funds should be reduced by the value of the consideration given". Transactions in own shares do not give rise to gains or losses in the issuing entity's profit and loss account or statement of total recognised gains and losses. The same applies to the consolidated financial statements of the issuing entity where shares in that entity are purchased or sold by a subsidiary. 4

FRS 4 'Capital Instruments' requires shares to be classified as equity shares or non-equity shares. Whether a transaction in own shares relates to equity or non-equity shares, there is no effect on reported profit as it is a transaction affecting only shareholders' interests. Any difference between the carrying amount of shareholders' funds attributable to non-equity shares and the consideration paid for their purchase is reported as an appropriation of profits in the same manner as FRS 4 requires for finance costs in respect of non-equity shares. 5





UITF CONSENSUS PRONOUNCEMENTS

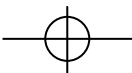
- 6 The requirements of this Abstract are consistent with International Financial Reporting Standards (IFRSs). SIC-16 'Share Capital—Reacquired Own Equity Instruments (Treasury Shares)' requires treasury shares to be presented in the balance sheet as a deduction from equity, not as assets. The acquisition and resale of treasury shares are presented as changes in equity and do not give rise to gains or losses. The basis for the treatment in IFRSs is that the acquisition and subsequent re-sale by an entity of its own equity instruments represents a transfer between those holders of equity instruments who have given up their equity interest and those who continue to hold an equity interest.

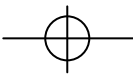
UITF Consensus

- 7 The UITF reached a consensus that:
- (a) Consideration paid for an entity's own shares should be deducted in arriving at shareholders' funds.
 - (b) No gain or loss should be recognised in the profit and loss account or statement of total recognised gains and losses on the purchase, sale or cancellation of an entity's own shares.
 - (c) Consideration paid or received for the purchase or sale of an entity's own shares should be shown as separate amounts in the reconciliation of movements in shareholders' funds.
 - (d) The amounts of reductions to shareholders' funds for an entity's own shares held, and the number of own shares held, should be disclosed separately.
- 8 Where shares in a holding company are purchased, held or sold by a subsidiary, the requirements in paragraph 7 apply in the holding company's consolidated financial statements.

Date from which effective

- 9 The accounting treatment required by this consensus should be adopted in financial statements relating to accounting periods ending on or after 23 December 2003.





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References

ASB pronouncements

FRS 3 'Reporting Financial Performance'
FRS 4 'Capital Instruments'—paragraphs 37, 39 and 44
Statement of Principles for Financial Reporting—Chapter 4
FRS 14 'Earnings Per Share'—paragraph 16

International Financial Reporting Standards

SIC-16 'Share Capital—Reacquired Own Equity Instruments (Treasury Shares)'

Legislation

Great Britain

Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003—SI 2003 No. 1116
Companies Act 1985, section 23

Republic of Ireland

Companies Act 1990—Part XI Acquisition of Own Shares and Shares in Holding Company

