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United States. Securities and Exchange Commission

Carman G. Blough

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Recommended Citation

United States. Securities and Exchange Commission and Blough, Carman G., "Securities and Exchange Commission today announced the issuance of an additional opinion in its Accounting Series, dealing with treatment of excess of proceeds from sale of treasury stock over the cost thereof" (1938). *Federal Publications*. 94.

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For IMMEDIATE Release Tuesday, May 10, 1938

SECURITIES AND EXCHANGE COMMISSION
Washington

ACCOUNTING SERIES
Release No. 6

The Securities and Exchange Commission today announced the issuance of an additional opinion in its Accounting Series, dealing with "treatment of excess of proceeds from sale of treasury stock over the cost thereof." The opinion was prepared by Carman G. Blough, the chief Accountant with respect to a particular example, but the principle in question has wider application. The opinion follows:

"Question has been raised with respect to the proper treatment of an item of \$488,211.83 representing 'Excess of proceeds from sale of 12,200 reacquired shares of the company's capital stock over the cost thereof.' These shares represent part of 41,400 shares of the capital stock of the registrant, a manufacturing company, reacquired by it prior to the year 1934 'for the purpose of resale when market conditions improved.'

"Under the laws of most states there are certain legal restraints upon the issuance of new shares that do not apply to the sale of treasury shares. However, from an accounting standpoint, there appears to be no significant difference in the final effect upon the company between (1) the reacquisition and resale of a company's own common stock and (2) the reacquisition and retirement of such stock together with the subsequent issuance of stock of the same class.

"It is recognized that when capital stock is reacquired and retired any surplus arising therefrom is capital and should be accounted for as such and that the full proceeds of any subsequent issue should also be treated as capital. Transactions of this nature do not result in corporate profits or in earned surplus. There would seem to be no logical reason why surplus arising from the reacquisition of the company's capital stock and its subsequent resale should not also be treated as capital.

"In my opinion the \$488,211.83 excess of proceeds from the sale of 12,200 reacquired shares of this registrant's capital stock over the cost thereof should be treated as capital stock or capital surplus as the circumstances require."