

On December 2, Coley Corporation Acquired 2,000 Shares Of Its \$4 Par Value Common Stock For \$21 Each.

On December 2, Coley Corporation Acquired 2,000 Shares Of Its \$4 Par Value Common Stock For \$21 Each. On this date, the company took a significant step in its corporate finance activities by repurchasing a substantial number of its own shares from the open market. Such treasury stock transactions are common strategic moves for corporations aiming to manage their capital structure, signal confidence to investors, or utilize excess cash efficiently. Understanding the details of this transaction, its accounting treatment, and its impact on financial statements is essential for investors, analysts, and students of corporate finance.

Understanding the Acquisition of Treasury Stock by Coley Corporation

What Is Treasury Stock?

Treasury stock, also known as reacquired stock, represents shares that a company has previously issued and then reacquired from the marketplace. These shares are held in the company's treasury and are not considered outstanding shares. Companies may buy back their stock for various reasons, including:

- To increase earnings per share (EPS) by reducing the number of shares outstanding
- To signal confidence in the company's future prospects
- To utilize excess cash effectively
- To support the stock price during periods of volatility

The Details of Coley Corporation's Transaction

On December 2, Coley Corporation purchased 2,000 shares of its common stock, which has a par value of \$4 per share, at a purchase price of \$21 per share. Key details include:

- Number of shares acquired: 2,000
- Par value per share: \$4
- Purchase price per share: \$21
- Total purchase price: 2,000 shares x \$21 = \$42,000
- Total par value of acquired shares: 2,000 x \$4 = \$8,000

This transaction reflects a significant investment by Coley Corporation in its own equity, with implications for its financial position and shareholder value.

Accounting for the Treasury Stock Purchase

Recording the Transaction

When Coley Corporation reacquires its shares, the accounting treatment involves debiting the treasury stock account and crediting cash. The treasury stock is recorded at the cost of acquisition, which is the purchase price paid per share.

Journal Entry:

Account	Debit	Credit
Treasury Stock	\$42,000	
Cash		\$42,000

This entry recognizes the company's purchase of its own shares at cost and reduces cash accordingly.

Impact on Financial Statements

The treasury stock appears as a contra-equity account on the balance sheet, reducing total shareholders' equity. Unlike assets, treasury stock does not generate future economic benefits; therefore, it is deducted from total equity.

Effects include:

- Reductions in total shareholders' equity by \$42,000
- No impact on total assets beyond the cash outflow
- Potential effects on key ratios such as earnings per share (EPS) and return on equity (ROE)

Implications of the Treasury Stock Purchase

Financial Ratios and Investor Perception

Repurchasing shares can influence various financial metrics:

- **EPS Enhancement:** Fewer outstanding shares can increase EPS, making the company appear more profitable.
- **Return on Equity (ROE):** Reducing equity can boost ROE, signaling efficient use of shareholder funds.
- **Stock Price Support:** Buying back shares can create upward pressure on the stock price, benefiting shareholders and signaling confidence.

Strategic Reasons for the Buyback

Coley Corporation's decision to repurchase 2,000 shares at a premium to par value likely stems from strategic considerations:

- Utilizing excess cash to return value to shareholders
- Optimizing capital structure by adjusting debt/equity ratios
- Preventing hostile takeovers by reducing the number of shares available in the market
- Signaling to the market that management believes the stock is undervalued

Future Actions and Accounting Considerations

Post-acquisition, Coley Corporation can decide to hold, reissue, or retire the treasury shares:

- **Reissue:** When treasury shares are reissued, the company records the sale at the reissue price, and any difference between the cost and reissue price impacts additional paid-in capital.
- **Retirement:** If the shares are retired, they are canceled, and the share capital account is adjusted accordingly.

Tax and Regulatory Considerations

Tax Implications of Share Buybacks

While treasury stock transactions are generally not taxable events, they can influence the company's tax strategies, especially when reissuing shares at a profit or loss. Additionally, dividend tax implications may affect shareholder decisions regarding holding or selling shares.

Regulatory Compliance

Companies must adhere to securities regulations governing share repurchases, including disclosure requirements and restrictions under SEC regulations. Transparency in treasury stock transactions helps maintain investor confidence and legal compliance.

Conclusion: The Significance of Coley Corporation's Treasury Stock Purchase

Coley Corporation's acquisition of 2,000 shares of its common stock at \$21 per share on December 2 exemplifies strategic corporate finance management. Such repurchases serve multiple purposes, from enhancing shareholder value to optimizing capital structure. The accounting treatment involves recording the transaction at the purchase cost, impacting the company's equity section and financial ratios.

Investors and analysts should consider the motives behind treasury stock activities, as they often signal management's confidence or strategic intentions. Moreover, understanding the broader implications—such as effects on EPS, ROE, and stock price—can provide deeper insights into the company's financial health and strategic direction.

In summary, the December 2 transaction reflects Coley Corporation's proactive approach to managing its capital and signals a potentially positive outlook to the market. As treasury stock transactions continue to play a vital role in corporate finance, grasping their mechanics and implications remains essential for informed investment decisions.

Keywords: treasury stock, share repurchase, Coley Corporation, financial statements, corporate finance, stock buyback, accounting for treasury stock, shareholder equity, stock buyback implications, capital structure

Frequently Asked Questions

What was the total cost for Coley Corporation to acquire 2,000 shares of its common stock on December 2?

The total cost was \$42,000, calculated as 2,000 shares × \$21 per share.

How does the purchase of treasury stock affect Coley Corporation's financial statements?

It decreases total stockholders' equity on the balance sheet and is recorded as treasury stock under stockholders' equity.

Why might Coley Corporation decide to buy back its common stock at \$21 per share?

To return value to shareholders, improve financial ratios, or to increase earnings per share by reducing the number of outstanding shares.

What is the accounting journal entry for Coley Corporation's purchase of its shares?

Debit Treasury Stock for \$42,000 and Credit Cash for \$42,000.

How does the purchase price of \$21 compare to the par value of \$4, and why is this important?

The purchase price exceeds the par value, indicating the shares are bought back at a premium, which affects additional paid-in capital and treasury stock accounts.

Can Coley Corporation reissue these treasury shares at a profit or loss?

Yes, if reissued at a price higher than the cost, it results in a gain; if lower, it results in a loss, affecting additional paid-in capital or retained earnings accordingly.

What are the potential impacts of treasury stock purchases on Coley Corporation's earnings per share (EPS)?

Purchasing treasury stock reduces the number of outstanding shares, which can increase EPS and potentially enhance per-share profitability.

Are there any restrictions or considerations Coley Corporation should be aware of when repurchasing its stock?

Yes, corporations must comply with legal limits on treasury stock, ensure sufficient retained earnings, and consider the impact on liquidity and shareholder perception.

Additional Resources

On December 2, Coley Corporation Acquired 2,000 Shares Of Its \$4 Par Value Common Stock For \$21 Each. On this day, Coley Corporation undertook a significant treasury stock transaction that has both immediate and long-term implications for its financial statements, shareholder equity, and overall corporate strategy. To fully understand this transaction, it is essential to explore its details, accounting treatment, strategic motivations, and potential impacts. This article provides a comprehensive overview, breaking down the key concepts and processes involved.

Understanding the Context: What Is Treasury Stock? And Why Do Companies Buy Back Their Shares?

Before delving into the specifics of Coley Corporation's transaction, it's important to clarify what treasury stock is and why corporations might choose to acquire their own shares.

Definition of Treasury Stock

Treasury stock, also known as reacquired stock or repurchased stock, refers to shares that a company has issued and subsequently bought back from the marketplace. These shares are held in the company's treasury and are not considered outstanding shares. As such, they do not confer voting rights nor do they pay dividends while held as treasury stock.

Reasons for Buying Back Shares

Companies may repurchase their shares for various strategic reasons, including:

- Enhancing Shareholder Value: Reducing the number of outstanding shares can increase earnings per share (EPS) and potentially boost stock prices.
- Utilizing Excess Cash: If a company has surplus cash and limited growth opportunities, share buybacks can be an attractive way to deploy capital.
- Supporting Stock Price: During periods of market undervaluation or to prevent hostile takeovers, repurchasing shares can serve as a stabilizing measure.
- Optimizing Capital Structure: Buybacks can help adjust the debt-to-equity ratio, affecting the company's leverage.
- Employee Compensation Plans: Treasury shares may be used for stock option plans or employee stock ownership programs.

The Transaction Details: What Happened on December 2?

Coley Corporation's particular transaction on December 2 involves the repurchase of 2,000 shares of its common stock at a price of \$21 per share. To understand the full scope, let's analyze the details systematically:

- Number of Shares Purchased: 2,000 shares
- Par Value per Share: \$4
- Purchase Price per Share: \$21

- Total Purchase Price: 2,000 shares × \$21 = \$42,000

This purchase price exceeds the stock's par value, which is common in buyback transactions.

Understanding Par Value and Market Price

- Par Value: A nominal value assigned to each share, often a small amount like \$4 in this case, primarily of accounting significance rather than market value.
- Market Price: The current trading price, which is \$21 here, reflecting the market's valuation.

The difference between the purchase price and the par value per share is called additional paid-in capital (or paid-in surplus), which plays a role in the equity section of the balance sheet.

Accounting for the Treasury Stock Purchase

Recording this transaction involves specific journal entries that reflect the reduction in shareholders' equity and the acquisition of treasury stock. Here's a step-by-step breakdown:

Initial Journal Entry

The accounting treatment generally involves debiting the treasury stock account and crediting cash:

- Debit: Treasury Stock (at cost) = \$42,000
- Credit: Cash = \$42,000

Since treasury stock is a contra-equity account, it reduces total shareholders' equity on the balance sheet.

Impact on the Financial Statements

- Balance Sheet: The treasury stock account increases by \$42,000, reducing total shareholders' equity.
- Income Statement: No immediate impact; treasury stock transactions do not affect net income.
- Statement of Shareholders' Equity: Reflects a decrease in total equity due to the purchase.

Note that the treasury stock is recorded at the purchase cost, not the par

value. Since the shares are bought back at \$21 per share, the total cost is \$42,000, regardless of the par value.

Long-Term Implications of Treasury Stock Acquisition

The decision to repurchase shares has several strategic, financial, and operational implications for Coley Corporation.

Impact on Earnings Per Share (EPS) and Return on Equity (ROE)

- EPS Enhancement: With fewer outstanding shares, net earnings are divided among a smaller base, often leading to higher EPS.
- ROE Improvement: As equity decreases due to the treasury stock, ROE (Net Income divided by Shareholders' Equity) can appear more favorable.

Effect on Shareholders

- Potential Stock Price Support: By reducing supply, the buyback may bolster the stock price.
- Dilution Prevention: If the company has stock options or convertible securities, buybacks can prevent dilution of existing shareholders' ownership.

Financial Ratios and Metrics

- Leverage Ratios: Debt-to-equity ratio may increase if the company finances the buyback with debt.
- Liquidity Ratios: Cash reserves decrease, potentially affecting liquidity ratios.

Strategic Considerations

- Market Signaling: The buyback signals confidence from management about the company's future prospects.
- Capital Allocation: Reflects a preference for returning value to shareholders over other investments.

Potential Future Actions: Reissuance or Retirement of Treasury Stock

Once treasury stock is acquired, the company has options regarding its disposition:

- Reissuance: Selling treasury shares back into the market, which increases outstanding shares.
- Retirement: Canceling the shares, permanently reducing the total authorized and issued shares.

Each choice impacts the company's capital structure, stock price, and shareholder ownership percentages.

Accounting for Reissuance or Retirement

- Reissuance of Treasury Shares: When treasury shares are sold, the proceeds are credited to the treasury stock account, often at cost, and any difference between sale proceeds and the treasury stock's cost is recorded as paid-in capital.
- Retirement of Treasury Shares: The treasury stock account is debited for the cost of the shares, and the shares are canceled, resulting in a reduction of authorized shares.

Legal and Regulatory Considerations

Companies must adhere to legal constraints and regulations governing treasury stock transactions:

- State Laws: Vary by jurisdiction; some states restrict the amount of stock that can be repurchased.
- Exchange Regulations: Must comply with securities regulations regarding disclosures and reporting.
- Internal Policies: Corporate bylaws may specify approval requirements for buybacks.

Conclusion: What Does This Mean for Coley Corporation?

Coley Corporation's decision on December 2 to acquire 2,000 shares of its common stock at \$21 per share exemplifies a strategic approach to capital management. This transaction not only impacts the company's immediate financial statements but also signals management's confidence in the company's prospects, while providing tools to optimize shareholder value.

The purchase reduces the number of shares outstanding, potentially enhancing key financial metrics such as EPS and ROE, and positions the company to influence its stock price proactively. However, it also reduces cash reserves and affects liquidity, requiring careful planning and consideration of future financing needs.

From an accounting perspective, the transaction is straightforward: treasury stock is recorded at the purchase cost, decreasing total shareholders' equity. Future decisions about reissuing or retiring these shares will further shape the company's capital structure and market strategy.

Overall, treasury stock transactions like Coley Corporation's reflect a nuanced balance of financial engineering, strategic signaling, and regulatory compliance, all aimed at maximizing long-term shareholder value and maintaining corporate agility in a dynamic market environment.

In summary, the December 2 transaction is a key component of Coley Corporation's broader financial strategy, illustrating how companies leverage treasury stock to manage capital structure, support stock price, and communicate confidence to investors. As markets evolve, such decisions remain central to corporate financial management, demanding careful analysis and strategic foresight.

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