

SPECIFIC ITEMS

SECTION 3240

share capital

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PURPOSE AND SCOPE	
.01 This Section establishes standards for acquisition and redemption of shares and disclosure of share capital. For additional standards, see FINANCIAL INSTRUMENTS, Section 3856. The requirements of this Section dealing with acquisition and redemption of shares need not be applied by open-ended investment companies. (Open-ended investment companies are described in ACCOUNTING GUIDELINE AcG-18, Investment Companies.)	
ACQUISITION OR REDEMPTION OF SHARES	
.02 When a company redeems or acquires its own shares, the cost will usually be different from their par, stated or assigned values. Since such transactions are clearly capital transactions, this difference will be excluded from the determination of net income (see CAPITAL TRANSACTIONS, Section 3610).	
Acquisition of shares	
.03 There are two methods of accounting for the acquisition by a company of its own shares; the difference between these methods rests on differing views as to whether the acquisition and subsequent resale are regarded as two separate transactions or as a single transaction.	
.04 Under the two-transaction method, it is held that the acquisition by a company of its own shares ends the relationship between company and shareholder and, therefore, the subsequent resale must be viewed as an independent transaction. Accordingly, the share capital and related accounts are adjusted at the time of acquisition and, when the shares are resold, they are treated as if they were an original issue. Share capital and contributed surplus are credited with the appropriate amounts as required by paragraph 3240.16.	
.05 Under the single-transaction method, the resale by a company of its own shares is viewed as the consummation of a transaction initiated by the acquisition of those shares. No adjustment is made to share capital and related accounts until the shares are resold. It has sometimes been argued that such shares might be accounted for as an asset. This argument has been rejected since it is an economic and legal fact that a company cannot own part of itself. Accordingly, until final disposition, the cost of the shares is shown as a deduction from the total of shareholders' equity.	
.06 The single-transaction method as set out above is the preferable method of accounting for the acquisition by a company of its own shares. This conclusion would also apply when shares are acquired and subsequently cancelled. The cost of the shares are shown as a deduction from the total of shareholders' equity until cancelled.	
.07 <i>When a company acquires its own shares, the shares shall be carried at cost and shown as a deduction from shareholders' equity until cancelled or resold. Shares held are considered to be issued capital for purposes of paragraph 3240.20.</i>	
.08 When a subsidiary acquires its own shares from interests outside the consolidated group, the accounting treatment to be followed in the parent company's consolidated financial statements is outlined in NON-CONTROLLING INTERESTS, Section 1602.	
Redemption or cancellation of shares	
.09 When a company redeems its own shares, or cancels shares that it has acquired, and the cost is in excess of the par, stated or assigned values, there are a number of possible methods of allocating the difference. These include the following:	

- (a) The excess would be charged first to contributed surplus until the entire account has been eliminated and the balance to retained earnings. Consequently, the excess may be offset in part against contributed surplus arising from entirely different sources.
 - (b) The excess would be charged first to any contributed surplus arising from transactions in shares of the same class and the balance to retained earnings. Consequently, the excess may be offset in part against contributed surplus relating to shares that are not being redeemed or cancelled.
 - (c) The excess would be charged entirely to retained earnings. Contributed surplus arising upon the original issue of shares would not be reduced even though such shares are being redeemed or cancelled.
 - (d) The excess would be charged to contributed surplus, pro rata, and the balance to retained earnings. The amount charged would be the direct opposite of the credit previously carried to contributed surplus.
- .10 There may be merit in each of these methods. However, a modification of paragraph 3240.09(d) is most appropriate since any charge to capital accounts (including contributed surplus) is restricted to the reversal of previous net credits to these accounts (see EQUITY, paragraph 3251.09).
- .11 *When a company redeems its own shares, or cancels its own shares that it has acquired, and the cost of such shares is equal to or greater than their par, stated or assigned value, the cost shall be allocated as follows:*
- (a) *to share capital, in an amount equal to the par, stated or assigned value of the shares* (see paragraph 3240.14 for computation of assigned value);
 - (b) *any excess, to contributed surplus to the extent that contributed surplus was created by a net excess of proceeds over cost on cancellation or resale of shares of the same class;*
 - (c) *any excess, to contributed surplus in an amount equal to the pro rata share of the portion of contributed surplus that arose from transactions, other than those in (b) above, in the same class of shares; and*
 - (d) *any excess, to retained earnings.*
- .12 When the cost is less than the par, stated or assigned value, the difference represents a contribution by the original shareholders that accrues to the benefit of the remaining shareholders. Since a company cannot earn a profit from the acquisition of its own shares, the difference is not included in retained earnings, but credited to contributed surplus (see EQUITY, Section 3251).
- .13 *When a company redeems its own shares, or cancels its own shares that it has acquired, and the cost of such shares is below their par, stated or assigned value, the cost shall be allocated as follows:*
- (a) *to share capital in an amount equal to the par, stated or assigned value of the shares* (see paragraph 3240.14 for computation of assigned value); and
 - (b) *the difference, to contributed surplus.*
- .14 For the purposes of paragraphs 3240.11(a) and 3240.13(a), the amounts to be allocated to the share capital account are based on the average per-share amount in such account for that class of share at the transaction date.

Resale of acquired shares

- .15 When a company acquires its own shares and subsequently resells them, no part of the proceeds is taken into income.
- .16 *When a company resells shares that it has acquired, any excess of the proceeds over cost shall be credited to contributed surplus; any deficiency shall be charged to contributed surplus to the extent that a previous net excess from resale or cancellation of shares of the same class is included therein, otherwise to retained earnings.*

Dividends

- .17 Since a company cannot own a part of itself, it cannot receive dividend income on its own shares.
- .18 *When a company has acquired its own shares and such shares have not been cancelled, any dividends otherwise payable with respect to these shares shall be treated as a reduction of dividends and shall not be reflected as income by the company.*

PRESENTATION

- .19 Retractable or mandatorily redeemable shares issued in a tax planning arrangement that are classified as equity in accordance with FINANCIAL INSTRUMENTS, Section 3856, are presented in accordance with the requirements of EQUITY, Section 3251.

DISCLOSURE

- .20 *Disclosure shall be made of issued share capital, including:*
- (a) *the number of shares for each class, giving a brief description and the par value, if any;*
 - (b) *dividend rates on preference shares and whether or not they are cumulative;*
 - (c) *the redemption price of redeemable shares;*
 - (d) *the existence and details of conversion provisions;*
 - (e) *the number of shares and the amount received or receivable that is attributable to capital for each class (when any shares have not been fully paid, disclosure shall be made of the amounts that have not been called and the*

unpaid amounts that have been called or are otherwise due as well as the number of shares in each of these categories); and

(f) arrears of dividends for cumulative preference shares.

.21 *Disclosure shall be made of commitments to issue or resell shares.*

.22 *Disclosure shall be made of details of transactions during the period, including:*

(a) the number of shares of each class issued since the date of the last balance sheet, indicating the value attributed thereto and distinguishing shares issued for cash (showing separately shares issued pursuant to options or warrants), shares issued directly or indirectly for services and shares issued directly or indirectly for other considerations;

(b) the number of shares of each class redeemed or acquired since the date of the last balance sheet and the consideration given and, when the consideration was other than cash, the nature of the consideration given and the value attributed thereto; and

(c) the number of shares of each class resold since the date of the last balance sheet, indicating the value attributed thereto and distinguishing shares resold for cash (showing separately shares resold pursuant to options or warrants), shares resold directly or indirectly for services and shares resold directly or indirectly for other considerations.

EFFECTIVE DATE

.23 Except as specified in paragraph 3240.24, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

.24 Amendments to paragraph 3240.19, issued in December 2018, apply to annual financial statements related to periods beginning on or after January 1, 2021. Earlier application is permitted.

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