Turkish Online Journal of Qualitative Inquiry (TOJQI)
Volume 12, Issue 9, August2021 : 7241 - 7247

Research Article

How to Account For Ordinary, Preference, and Treasury shares

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Abstract

Shares are proof of ownership or participation in a company. If investors buy shares, it means they are buying company prospects. If the value of a company's prospects is good, then the stock will increase. Shares can be divided into 3 (three) namely common stock, preferred stock and treasury stock. Common stock has characteristics that distinguish it from other investments, for example, it does not promise a fixed income and usually has no maturity. Preferred stock is stock where the owner has privileged rights at the time of distribution of dividends or at the time of distribution of assets if the company is liquidated. In addition, there are also so-called treasury shares, treasury stocks are ordinary shares issued to investors and then repurchased by the company for the company itself.

Keyword : Shares, Common Stocks, Preferred Stocks, Treasury Stocks
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1. INTRODUCTION

To start a business, capital production factors are needed which is the most flexible resource. Examples of resources that can be obtained with capital are to buy production machines, factory buildings, raw materials or human resources who have the required expertise. To increase capital or income without leaving the office, people usually tend to choose profitable investment decisions. The investment decision-making process is always related to a forward-looking approach so that future projections are needed (Santoso, 2020). There are many parties involved in the game in the stock market, in general there are three, namely Invetor, Spekulan and Government. The three parties involved have their own goals and interests. As the government tries to regulate and make the direction of the stock market in accordance with the conditions and targets desired in the development plan, both in the short and long term. There are several types of shares, namely common stocks, preferred stocks, and treasury stocks. Preferred stock is called a mixed stock because it has almost the same as common stock.

Shares can be interpreted as a letter or ownership of the capital portion of a company and is also one of the sources of funds obtained by the company from the owners of capital with the consequence that the company must pay dividends to shareholders. Stock prices are shares that reflect the wealth of the company that issued the shares, where changes or fluctuations are largely determined by the forces of supply and demand that occur in the stock market. There is a way to find out the stock market, namely:

1. Issuance Of Shares
   a. The company issues common stock directly to investors or indirectly through investment banking companies
   b. Factors in setting the price for the issuance of new shares:
      - The company's anticipated future income

   - Expected dividend rate per share
   - Current financial position
   - The current state of the economy
   - Current securities market conditions
2. Stock Market Price
   a. Shares of publicly traded companies are traded on organized exchanges
   b. The interaction between buyers and sellers determines the price per share
   c. Prices tend to follow trends in corporate earnings and dividends
   d. Factors beyond the company's control can cause day-to-day fluctuations in market prices
3. Par and No-Par Share Values
   a. Years ago, par value determined the legal capital per share a company had to keep in business to protect the company's creditors
   b. Currently many governments do not require face value
   c. Stocks without par value are quite common nowadays
   d. In many countries, the board of directors assigns a certain value to shares without par value

2. LITERATUR REVIEW

According to Hartono (2017: 29), shares are proof of partial ownership of the company. Shares are equity participation in the ownership of a limited liability company (PT) or usually referred to as an issuer. Tandelilin (2017) explains that common stock describes the ownership of a company. Common stock is a certificate that shows proof of ownership of a company. Samsul (2015) explains that shares are proof of ownership of a company. Shareholders are also called shareholders. Shares are also securities that are ownership. It means that the shareholder is the owner of the company, the bigger the shares he has, the greater his power in the company. Profits obtained from shares are known as dividends and the distribution is determined in the General Meeting of Shareholders or GMS. (Cashmere 2016).

Shares are proof of ownership of a company that can be traded. There are three types of shares, namely:
1. Common Stocks
2. Preferred Stocks
3. Treasury Stocks

Ordinary Share is a residual company, which generally has three main characteristics that distinguish it from other investments, namely:
1. Common stock does not promise a fixed and definite income.
2. Common stockholders will have the right to participate in the General Meeting of Shareholders who hold the highest authority in the company.
3. Ordinary shares do not have a specific maturity

Preferred Stocks are types of shares issued by companies with characteristics, such as:
1. Preference for dividend distribution
2. Preferences when dividing assets, in the company's liquidation process
3. Can be converted into common stock
4. Can be withdrawn as an exercise of option rights for the company
5. No voting rights
6. The nature of dividends can be cumulative, meaning that dividends that are not distributed can be accumulated to the next period
7. Participatory, namely the possibility of getting additional dividends after allocating dividends to common shareholders
8. Can be sold to the company that issued the shares

Common stock has several types, namely::
a. Blue chip- stocks (Featured Stock). Is the stock of a company that is known nationally and has a history of profit, growth and quality management.

b. Growth Stocks. Is a stock stock that is expected to provide higher profit growth than other stocks.
c. Defensive Stocks (defensive stocks). Is a stock that tends to be more stable in times of recession or an uncertain economy in terms of dividends, earnings and market performance.
d. Cylical Stocks. These are securities that tend to rise in value very quickly when the economy is booming and fall quickly when the economy is down.
e. Seasonal stocks. Is a company whose sales vary due to seasonal effects, for example due to weather and holidays.
f. Speculative Stocks. Is a stock that has a high level of speculation, allowing the rate of return the result is low or negative.

Treasury stocks are the recall of shares that have been sold (circulated) with the intention of reselling them if needed. The reasons for withdrawing are as follows:
1. To reduce taxes
2. Increase earnings per share and return on equity
3. Reducing the number of shareholders
4. Establish a market for stocks
5. Shares are resold to the company
6. Shares will be issued with securities of other companies.

Some important things related to treasury stocks, namely:
- Treasury stocks should not be considered as assets
- Reported as a reduction in capital
- Treasury stocks do not acquire the rights of other shareholders (dividends, voting rights)
- There is no recognition of loss or gain from treasury stocks transactions
- If there is a dividend distribution is not taken into account

3. METHOD

This section will explain the issuance of shares starting from accounting for Ordinary Shares, Preferred stocks and treasury share.

1. Accounting for Ordinary Shares
   Ordinary shares has the main purpose of identifying specific sources of capital.

A. Issuing Par Value Common Stocks for Cash
   - Par value does not indicate a share's market price
   - Cash proceeds from issuing par value shares may be equal to, greater than, or less than par value
   - Issuance of ordinary shares for cash
     - Credit par value of shares to Share Capital-Ordinary
     - Record in a separate account portion of proceeds that is above or below par value

B. Issuing No-Par Value Ordinary Shares

C. Issuing Ordinary Shares for Services or Non-Cash Assets
   Corporations also may issue shares for:
   - Services (attorneys or consultant)
   - Non –Cash assets (land, building, and equipment)

   Cost is either the fair market value of the consideration given up, or the fair market value of the consideration received, whichever is more clearly determinable.

2. Accounting for Preferred Shares
   Typically, preferred shareholders have a priority as to:

a. Distribution of earnings (dividends)
b. Assets in event of liquidation

Generally do not have voting rights and accounting for prefereed shares at issuance is similar to that for ordinary shares

3. Accounting for Treasury Shares

Treasury share are a corporation's own shares that it has reacquired from shareholders but not retired. Corporation acquire treasury shares for various reasons:

a. To reissue the shares to officers and employee under bonus and share compensation plans
b. To enhance the share's market value
c. To have additional share available for use in the acquisition of other companies
d. To increase earning per share

Purchase of Treasury Share:

- Companies generally use cost method
- Debit Treasury Shares for price paid to reacquire share
- Treasury share is a contra equity account
- Reduces equity

4. RESULTS AND DISCUSSION

4.1. Result

Every investor chooses shares as a side in obtaining income other than fixed income. so investors or potential shareholders must know which shares are more profitable. By learning what shares are, their purpose, types of shares and how to buy them, it is hoped that it can help inventors or potential shareholders in determining which shares to choose.

4.2. Discussion

In this section, we will discuss how tojournalize each stocks, namely:

A. Accounting for Ordinary Shares

1. Issuing Par Value Ordinary Shares for Cash

Ilustration: Assume that Astra Int, Tbk issues 1,000 shares of $1 par value ordinary shares.

Cash	1,000	
Share Capital- Ordinary (1,000 x $1)		1,000

Now assume that Astra Int, Tbk issues an additional 1,000 shares of the $1 par value ordinary shares for cash at $5 per share.

Cash	5,000	
Share Capital- Ordinary (1,000 x $1)		1,000
Share Premium- Ordinary		4,000

2. Issuing No-Par Value Ordinary Shares

Ilustration: Assume that instead of $1 par value shares, AstraInt, Tbk has $5 stated value no-par shares and the company issues 5,000 shares at $8 per share for cash

Cash	40,000	
Share Capital- Ordinary (1,000 x $1)		25,000
Share Premium- Ordinary		15,000

Ilustration: if Astra Int, Tbk does not assign a stated value to its no-par shares, it records the issuance of the 5,000 shares at $8 per share for cash as follows

Cash	40,000	
Share Capital- Ordinary		40,000

3. Issuing Ordinary Shares for Services or Non-Cash Assets

Ilustration: Attorneys have helped Jaya Company Corp. They have billed the company $5,000 for their services. They agree to accept 4,000 shares of $1 par value ordinary shares in payment of their bill. At the time of the exchange, there is no established market price for the shares.

Organization Expense	5,000	
Share Capital- Ordinary		4,000
Share Premium- Ordinary		1,000

Ilustration: PT. Jasa Marga Tbk is in existing publicly held corporation. Its $5 par value shares are actively traded at $8 per share. The company issues 10,000 shares to acquired land recently advertised for sale at $90,000

Land	80,000	
Share Capital- Ordinary		50,000
Share Premium- Ordinary		30,000

B. Accounting For Preferred Shares

Ilustration: Bank Mandiri, Tbk issues 10,000 shares of $10 par value preferred shares for $12 cash per share.

Cash	120,000	
Share Capital- Ordinary		100,000
Share Premium- Ordinary		20,000

Preferred shares may have a par value or no par value

C. Accounting for Treasury Shares

Ilustration: On March 1, 2021, Unilever Tbk, acquires 4,000 share of its stocks at$80 per share.

Treasury Shares	320,000	
Cash		320,000

1. Sale of Treasury Shares Above Cost

Ilustration: On July1, Unilever Tbk. Sell for $100 per share, 1,000 of the 4,000 treasury shares previously acquired at $80 per shares.

Cash	100,000	
Treasury Shares		80,000
Share Premium-Treasury		20,000

A corporation does not realize a gain or suffer a loss from shares transaction with its own shareholders.

2. Sale of Treasury Shares Below Cost

Ilustration: if Unilever Tbk. Sell an additional 800 treasury shares on October 1 at $70 per share.

Cash (300 x $70)	154,000	
Share Premium-Treasury	12,000	
Retained Earnings	10,000	
Treasury Shares		176,000

5. CONCLUTION

Common stocks and preferred stocks have advantages and disadvantages which can be explained as follows:

1. Common stocks:
   - The amount in circulation is large and easy to trade

- Votes the ordinary shareholders can determine and choose the company's management line
- Common stockholders dividends are paid
- Dividend value is determined according to the company's profit
- The nature of dividends is not cumulative, meaning that dividends that are not distributed are not accumulated in the following year
- At the time of liquidation/loss,common stockholders do not have the primary right to claim return on investment, return on investment in common stocks can be made after all assets are sold to payoff the company's debts and pay the investment of preferred stockholders
- Owners of common stocks have the right to buy back shares of the company.

2. Preferred Stocks
- The quantity is small and difficult to buy
- Preferred shareholders votes are only considered for consideration
- Have the right to get an early dividend payment
- Divident value has been determined and is usually fixed income
- The nature of dividends can be concluded, meaning that dividends that are not distributed can be accumulated to the next period
- At the time of liquidation/loss, preferred stockholders have the right to be prioritized in making investment
- Owners of preferred shares do not have the right to buy back share of the company.

Meanwhile, treasury shares can be categorized as ordinary shares which are acquired by the company on behalf of the company itself, while treasury shares are obtained from the repurchase of share.

3. Treasury stocks
- The purchase of treasury share will reduce the number of shares outstanding in the open market and prevent the share price from falling sharply
- Treasury shares are stored in the treasury cash which is used as capital reserve
- Treasury shares do not have voting rights in the general meeting of shareholders and dividend distribution
- Treasury shares can be resold and if the selling price is above the share purchase price, the company will earn income

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