

**LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA
MALAYSIAN ACCOUNTING STANDARDS BOARD**

MFRS Application and Implementation Guide 1

**Accounting Treatment for
Cancellation of Treasury Shares
under the *Companies Act 2016***

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MFRS Application and Implementation Guide 1 *Accounting Treatment for Cancellation of Treasury Shares under the Companies Act 2016* is issued by the MASB in respect of its application in Malaysia.

MFRS Application and Implementation Guide 1

Accounting Treatment for Cancellation of Treasury Shares under the Companies Act 2016

The Committee received a request about the accounting treatment for cancellation of treasury shares.

In the fact pattern described in the request:

- (a) The issued share capital of a company is RM10,000,000, comprising 10,000,000 shares;
- (b) The company has 1,000,000 treasury shares with carrying amount of RM2,000,000; and
- (c) During issuance of shares, the average cost per share is RM1.00 per share, and subsequently the purchase of treasury shares is RM2.00 per share.

The request asked for the accounting treatment for cancellation of the treasury shares under the *Companies Act 2016* (“the Act”).

The Committee observed that applying Paragraph 33 of MFRS 132 *Financial Instruments: Presentation* if an entity reacquires its own equity instruments, those instruments (“treasury shares”) shall be deducted from equity. No gain or loss shall be recognised in profit or loss on the purchase, sale, issue or cancellation of an entity’s own equity instruments. Such treasury shares may be acquired and held by the entity or by other members of the consolidated group. Consideration paid or received shall be recognised directly in equity. Based on the fact pattern, the accounting treatment when the company reacquires its own equity instruments would be as follows:

DR Treasury Shares	RM2,000,000
CR Cash/Bank	RM2,000,000

Paragraph 34 of MFRS 132 further states that the amount of treasury shares held is disclosed separately either in the statement of financial position or in the notes, in accordance with MFRS 101 *Presentation of Financial Statements*. An entity provides disclosures in accordance with MFRS 124 *Related Party Disclosures* if the entity reacquires its own equity instruments from related parties. In accordance with Section 127(9) of the Act, the 1,000,000 shares held in treasury are considered as constructively retired for legal purposes and they are presented as an offset in equity.

In accordance with Section 127(13) of the Act where the company resolves to cancel any treasury shares, the costs of the shares shall be applied in the reduction of profits otherwise available for distribution as dividends. The journal entry to recognise the cancellation of treasury shares would be as follows:

DR Retained Earnings	RM2,000,000
CR Treasury Shares	RM2,000,000

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In addition, Section 127(14) of the Act states that, inter alia, the issued capital of the company shall be diminished by the treasury shares so cancelled. The journal entry when the company diminished its issued capital would be as follows:

DR Share Capital	RM1,000,000
CR Retained Earnings	RM1,000,000

The issued capital of the company will be reduced to 9,000,000 shares after cancellation of the 1,000,000 shares held in treasury.

In accordance with Section 127(15) of the Act a cancellation of treasury shares under Section 127(7)(e) of the Act shall not be deemed to be a reduction of share capital within the meaning of the Act.