Case 14-02
Trojan Stockpiles

Trojan Industries Inc. ("Trojan"), a publicly traded company in the United States, is a global leader in the production of specialty metal products — particularly bronze statues and titanium bear traps. Trojan's dominance in the marketplace over several years led to significant excess cash flows from operations. During its fiscal year ended December 31, 20X1, Trojan deployed its excess cash to repurchase and retire 3 million shares of its common stock ($1.00 par value) for a total cost of $33 million (average price of $11 per share). Within its 20X1 financial statements Trojan accounted for its share retirements by recognizing the excess of the purchase price over the par value of the retired shares as a reduction of additional paid-in capital (APIC), as follows:

Dr. APIC	$ 30 million	
Dr. Common stock	3 million	
Cr. Cash		($33 million)

During the first quarter of 20X2, Trojan repurchased and retired 5 million additional shares for $60 million (average price of $12 per share). While preparing its financial statements for its quarter ended March 31, 20X2, Trojan concluded that instead of recognizing the excess of the purchase price over par solely as a reduction of APIC, an allocation of the amounts in excess of par across both APIC and retained earnings was more appropriate. Trojan believes this proposed accounting better reflects the economics of its repurchases and avoids the potential for a debit balance in APIC in the future. Trojan's filing (e.g., SEC Form 10-Q) for its quarter ended March 31, 20X2, includes comparative statements of financial position as of March 31, 20X2, and December 31, 20X1.

The share retirements during 20X1 and the first quarter of 20X2 are the only share repurchases Trojan has ever affected. Before the noted repurchases Trojan had 32 million shares of common stock outstanding, all of which were issued for $4 per share ($128 million in total). All of Trojan's share repurchases were executed at market terms (i.e., at the then current fair value of the shares). Trojan has never paid a cash or stock dividend or affected a stock split or reverse stock split.

In addition, given its global dominance, Trojan is exploring the possibility of listing its shares on an exchange outside the United States. Trojan has not made any definitive decisions, but believes if its shares are listed on a foreign exchange it will be required to produce financial statements in conformity with IFRSs. Trojan is unsure of how its share retirements would be accounted for under IFRSs.

Required:

1. Does Trojan's change in accounting for share repurchases represent a correction of an error or a change in accounting principle?
2. If Trojan were required to subsequently issue financial statements in conformity with IFRSs, would Trojan's accounting for its share retirements be impacted?