Shareholder Letters: Accounting Themes

Share repurchases

Berkshire letters: 1999, 2011, 2016, 2025

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What the Letter Says

> *"We will not repurchase shares unless we believe Berkshire stock is selling well below intrinsic value, conservatively calculated."*
>
> Warren E. Buffett, 1999 letter

- Key letters: 1999, 2011, 2016, 2025
- Course fit: ACC250 Ch11 · ACC531 — · Difficulty: Intro

Step 1: Record the Buyback

EX. Buy back 50 shares for $20 each.

Date:	Treasury Stock (+xSE, −SE)	1,000	
	Cash (−A)		1,000

- Assets ↓, SE ↓; no expense → net income unchanged.

Step 2: Effect on EPS

	Before	After
Net income	$500	$500
Shares outstanding	250	200
EPS	$2.00	$2.50

- Fewer shares → higher EPS, even with the same profit.

Step 3: Price vs. Value

Buyback price	Shareholders who stay
Below intrinsic value	Gain
Above intrinsic value	Lose

Back to the Letter

- Buffett (1999, 2011): buy back only when the stock sells **well below** intrinsic value, conservatively calculated.
- Abel (2025): the same rule: repurchases must enhance per-share value for continuing owners.

Questions

1. Net income is $500 and 250 shares are outstanding. The company buys back 50 shares. What is EPS after the buyback ($)?
2. Which account is debited when a company buys back its own shares?

   A. Common Stock expense

   B. Treasury Stock (contra-equity)

   C. Cash

   D. Retained Earnings

Sources

- Warren E. Buffett, 1999 letter (berkshirehathaway.com/letters)
- Warren E. Buffett, 2011 letter (berkshirehathaway.com/letters)
- Warren E. Buffett, 2016 letter (berkshirehathaway.com/letters)
- Greg Abel, 2025 letter (berkshirehathaway.com/letters)
- Reading packet and question sheet for this theme

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