

PRINCIPLES OF ACCOUNTING II
ACC 122

EARNINGS PER SHARE

1. This is the amount of income earned by each share of a corporation's common stock.
2. It is one of the most widely quoted items in the financial community.
3. The calculation of earnings per share (EPS) can be simple or complicated, depending on a company's situation.

Simple Capital Structures

- A simple capital structure can include
 - Common Stock
 - Nonconvertible preferred stock
- A simple capital structure cannot include
 - Stock Options
 - Convertible preferred stocks or bonds

Basic Formula:

$$\frac{\text{Net income} - \text{Preferred Dividends}}{\text{Outstanding common shares}}$$

Example: Net income for the year was \$89,000, preferred dividends were \$9,000 and the company had 20,000 shares of common stock outstanding for the year.

$$\frac{\$89,000 - \$9,000}{20,000 \text{ shares}} = \$4.00 \text{ EPS}$$

When the number of common shares changes, the numerator remains the same, but the denominator changes to the weighted average number of outstanding shares.

Same facts as above, however, the company had 20,000 shares of common stock outstanding on January 1, 19X1, and sold 10,000 additional shares on July 1, 19X1

January - June	20,000	6/12	10,000
July - December	30,000	6/12	<u>15,000</u>
Weighted-average outstanding shares			25,000

$$\frac{\$89,000 - \$9,000}{25,000 \text{ shares}} = \$3.20 \text{ EPS}$$