**Earnings per Share**

**Simple Capital Structure: Common stock and (possibly) preferred stock**

**Net income/# of shares**

|  |  |
| --- | --- |
| Net income applicable to common stock  Possible Adjustments:  **Deduct preferred dividends** (paid or in arrears) | # of shares of common stock  Adjustments:   1. Determine average # of shares outstanding for the period 2. **Stock dividends** – assume issued at beginning of the period 3. **Stock split** – assume earliest period for which EPS calculated. Restate earlier EPS |

Complex Capital Structure: Common stock and (possibly) preferred stock plus stock options; warrants; convertible bonds; convertible preferred stock; and contingent shares

|  |  |
| --- | --- |
| Same Adjustments as for simple capital structure Plus additional adjustments | Same Adjustments as for simple capital structure Plus additional adjustments  **Stock Options and Warrants**: add possible number of shares  Assume cash received is used to buy treasury stock @ average market price for year – subtract assumed # shares of treasury stock  If options were actually exercised – use actual market price on exercise date for T/S purchase |
| Add bonds interest payments (net of tax) to net income | **Convertible Bonds**: Add # of possible shares |
| Add preferred dividends to net income | **Convertible Preferred Stock:** Add # of possible shares |
|  | **Contingent Shares**:   1. **If contingency met** ---> add # of possible shares   **If cash received assume it is used to purchase treasury stock @ average market price for year, subtract # of treasury shares**   1. **If contingency NOT met** ---> no adjustment |