**Earnings per Share**

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

**Net income/# of shares**

|  |  |
| --- | --- |
| Net income applicable to common stockPossible Adjustments:**Deduct preferred dividends** (paid or in arrears) | # of shares of common stockAdjustments: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
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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
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