

CONCEPT: RATIOS – EARNINGS PER SHARE (EPS)

- **Earnings per Share (EPS)** divides up the current period's _____ for all the common stockholders.

☐ Earnings per Share is a common _____ ratio

$$EPS = \frac{\text{Net Income} - \text{Preferred Dividends}}{\text{Average \# of Shares of Common Stock Outstanding}} = \frac{\text{Net Income} - \text{Preferred Dividends}}{(\text{Beg. \# of Shares} + \text{End. \# of Shares}) \div 2}$$

Note: An average balance is used in many ratios. It is always calculated as _____.
If you are only given one balance (i.e. ending balance), just use that number (no average!)

Analysis: This ratio shows amount of income the company earned for each share of stock.

Comparison: EPS is usually compared to previous year numbers to analyze **trends**.
Investors want more earnings, so _____ EPS is always better!

- ☐ The computation above is for **basic EPS**. The calculation of **diluted EPS** accounts for the creation of shares:
- Bonds (debt) that can be converted into shares of common stock
 - Employee stock options that allow employees to buy shares of the company
 - Luckily, we don't calculate diluted EPS in this class!

PRACTICE: MoneyCo had sales revenue and net income during the current year of \$500,000 and \$60,000, respectively. The total amount of stockholders' equity was \$600,000, and common shares outstanding were 120,000 all year. What is MoneyCo's earnings per share?

- a) \$0.10
- b) \$0.50
- c) \$2.00
- d) \$10.00

PRACTICE: Tougher Company's current year income statement showed an EPS of \$1.25 per share. If total common equity totaled \$600,000 (40,000 common shares) and preferred dividends were \$10,000 (10,000 preferred shares), what was net income during the period?

- a) \$50,000
- b) \$60,000
- c) \$62,500
- d) \$72,500