Intermediate Accounting – 2

Chapter 20: Earnings per share

Question Sheet

1. Wilcox Enterprises, a public company, is required to disclose earnings per share information in its financial statements for the year ended December 31st 2016. The facts are as follows:

   a. At the beginning of the year, 450,000 common shares, issued for $5.75 million were outstanding. The authorized number of common shares is $1 million. On January 1st, 50,000 $5 cumulative preferred shares were also outstanding. They had been issued for $500,000.
   b. On September 30th 2016, Wilcox issued 100,000 common shares for $1.5 million cash.
   c. Wilcox reported earnings of $2.5 million for the year ended 31st December 2016.
   d. At January 1st 2016, Wilcox had outstanding $1 million (par value) of 8% convertible bonds ($1,000 face value) with interest payable semi-annually. Each $1,000 bond is convertible into 65 common shares, at the option of the holder, at any time before 31st December 2011.
   e. Wilcox has options outstanding for 50,000 common shares at a price of $5 per share. The average market value of common shares during the period was $20.
   f. Effective tax rate of 40%

Required

1. Calculate the Basic EPS
2. Calculate the individual effect of options and bonds if converted, on the EPS
3. Calculate the diluted EPS