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FINAL EXAM

Course # 171019
Accounting for Earnings per Share

based on the electronic .pdf file(s):

Accounting for Earnings per Share
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6 CPE Credit Hours
Accounting & Auditing

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Chapter 0 - Course Material

1. Due to the importance of earnings per share information, it is required to be reported by all:

- ______ Public companies only
- ______ Both public and nonpublic companies
- ______ Neither public nor nonpublic companies
- ______ Nonpublic companies only

2. In computing earnings per share for a simple capital structure, if the preferred stock is cumulative, the amount that should be deducted as an adjustment to the numerator (earnings) is the

- ______ Preferred dividends in arrears.
- ______ Preferred dividends in arrears times (one minus the income tax rate).
- ______ Annual preferred dividend times (one minus the income tax rate).
- ______ None of these.

3. With respect to the computation of earnings per share, which of the following would be most indicative of a simple capital structure?

- ______ Common stock, preferred stock, and convertible debt outstanding.
- ______ Common stock, convertible preferred stock, and debt outstanding.
- ______ Common stock, preferred stock, and debt outstanding.
- ______ Common stock, preferred stock, and stock options outstanding.

4. In computing earnings per share, the equivalent number of shares of convertible preferred stock are added as an adjustment to the denominator (number of shares outstanding). If the preferred stock is cumulative, which amount should then be added as an adjustment to the numerator (net earnings)?

- ______ Annual preferred dividend.
- ______ Annual preferred dividend times (one minus the income tax rate).
- ______ Annual preferred dividend times the income tax rate.
- ______ Annual preferred dividend divided by the income tax rate.

5. On January 31, 2012, Pack, Inc. split its common stock 2 for 1, and Young, Inc. issued a 5% stock dividend. Both companies issued their December 31, 2012 financial statements on March 1, 2012. Should Pack's 2012 basic earnings per share (BEPS) take into consideration the stock split, and should Young's 2012 BEPS take into consideration the stock dividend?

- ______ Only consider Pack’s stock split
- ______ Don’t consider either the stock split or the stock dividend
- ______ Consider both the stock split and the stock dividend
- ______ Only consider Young’s stock dividend

6. On January 1 2012, Kensington Corporation had 25,000 shares of common stock outstanding at a $5 par value. On March 1, the Corporation sold an additional 50,000 shares on the open market at $25 per share. The Corporation issued a 20% stock dividend on May 1. On August 1, the Corporation purchased 28,000 shares and immediately retired the stock. On November 1, 40,000 shares were sold for 430 per share. What is the weighted average number of shares outstanding for?

- ______ 51,667.

______ 75,000.

______ 71,667.

______ 102,000.

7. In computations of weighted average of shares outstanding, when a stock dividend or stock split occurs, the additional shares are

______ Weighted by the number of days outstanding.

______ Weighted by the number of months outstanding.

______ Considered outstanding at the end of the year.

______ Considered outstanding at the beginning of the year.

8. At December 31, 2012, Meyer Company had 500,000 shares of common stock issued and outstanding, 400,000 of which had been issued and outstanding throughout the year and 100,000 of which were issued on October 1, 2012. Net income for the year ended December 31, 2012, was $510,000. What should be Meyer's 2012 earnings per common share, rounded to the nearest penny?

______ $1.02.

______ $1.27.

______ $1.20.

______ $1.13.

9. Jett Corp. had 600,000 shares of common stock outstanding on January 1, issued 900,000 shares on July 1, and had income applicable to common stock of $1,260,000 for the year ending December 31, 2012. Earnings per share of common stock for 2012 would be

______ $2.10.

______ $1.00.

______ $1.20.

______ $1.40.

10. At December 31, 2012, Marshall Company had 500,000 shares of common stock issued and outstanding, 400,000 of which had been issued and outstanding throughout the year and 100,000 of which were issued on October 1, 2012. Net income for the year ended December 31, 2012, was $765,000. What should be Marshall's 2012 earnings per common share, rounded to the nearest penny?

______ $1.53.

______ $1.90.

______ $1.80.

______ $1.70.

11. Loeb Co. had 600,000 shares of common stock outstanding on January 1, issued 84,000 shares on May 1, purchased 42,000 shares of treasury stock on September 1, and issued 36,000 shares on November 1. The weighted average shares outstanding for the year is

______ 634,000.

______ 648,000.

______ 662,000.

______ 676,000.

12. When computing diluted earnings per share, convertible bonds are

______ Ignored.

|______ Assumed converted whether they are dilutive or antidilutive.

|______ Assumed converted only if they are antidilutive.

|______ Assumed converted only if they are dilutive.

13. Dilutive convertible securities must be used in the computation of

|______ Basic earnings per share only.

|______ Diluted earnings per share only.

|______ Diluted and basic earnings per share.

|______ The weighted average number of preferred shares outstanding.

14. What effect will the acquisition of treasury stock have on stockholders' equity and earnings per share, respectively?

|______ Decrease and no effect

|______ Increase and no effect

|______ Decrease and increase

|______ Increase and decrease

15. In the case of stock options, ______________________ must be used in determining diluted earnings per share.

|______ The if-converted method.

|______ The option expensing method.

|______ The treasury stock method.

|______ The compensation method.

16. In the diluted earnings per share computation, the treasury stock method is used for options and warrants to reflect assumed reacquisition of common stock at the average market price during the period. If the exercise price of the options or warrants exceeds the average market price, the computation would

|______ Fairly present diluted earnings per share on a prospective basis.

|______ Fairly present the maximum potential dilution of diluted earnings per share on a prospective basis.

|______ Reflect the excess of the number of shares assumed issued over the number of shares assumed reacquired as the potential dilution of earnings per share.

|______ Be antidilutive.

17. Under the treasury stock method, the diluted earnings per share (DEPS) calculation is based on the assumptions that call options and warrants issued by the reporting entity and outstanding for the entire year were exercised at the

|______ End of the period and that the funds obtained thereby were used to purchase common stock at the average market price during the period.

|______ Beginning of the period and that the funds obtained thereby were used to purchase common stock at the average market price during the period.

|______ End of the period and that the funds obtained thereby were used to purchase common stock at the current market price in effect at the end of the period.

|______ Beginning of the period and that the funds obtained thereby were used to purchase common stock at the current market price in effect at the end of the period.

18. Assume there are two dilutive convertible securities. The one that should be used first to recalculate earnings per share is the security with the

|______ Greater earnings adjustment.

|______ Greater earnings adjustment per share adjustment.

|______ Smaller earnings adjustment.

|______ Smaller earnings adjustment per share adjustment.

19. When computing diluted earnings per share, convertible securities are

|______ Ignored.

|______ Recognized only if they are dilutive.

|______ Recognized only if they are antidilutive.

|______ Recognized whether they are dilutive or antidilutive.

20. The if-converted method of computing earnings per share data assumes conversion of convertible securities as of the

|______ Beginning of the earliest period reported (or at time of issuance, if later).

|______ Beginning of the earliest period reported (regardless of time of issuance).

|______ Middle of the earliest period reported (regardless of time of issuance).

|______ Ending of the earliest period reported (regardless of time of issuance).

21. On January 2, 2012, Dane Co. issued at par $300,000 of 9% convertible bonds. Each $1,000 bond is convertible into 30 shares. No bonds were converted during 2012. Dane had 50,000 shares of common stock outstanding during 2012. Dane's 2012 net income was $160,000 and the income tax rate was 30%. Dane's diluted earnings per share for 2012 would be (rounded to the nearest penny)

|______ $2.71.

|______ $3.03.

|______ $3.20.

|______ $3.58.

22. On January 2, 2012, Worth Co. issued at par $2,000,000 of 7% convertible bonds. Each $1,000 bond is convertible into 10 shares of common stock. No bonds were converted during 2012. Worth had 200,000 shares of common stock outstanding during 2011. Worth's 2012 net income was $600,000 and the income tax rate was 30%. Worth's diluted earnings per share for 2012 would be (rounded to the nearest penny):

|______ $3.49.

|______ $3.00.

|______ $3.17.

|______ $3.36.

23. Which one of the following statement is NOT true regarding earnings per share?

|______ In computing earnings per share, all antidilutive securities should be ignored.

|______ In computing earnings per share, the aggregate of all dilutive securities must be considered.

|______ A security is considered to be antidilutive if its inclusion does not cause earnings per share to go up.

|______ A convertible security is antidilutive if the exercise of the convertible bond or preferred stock causes an increase in the earnings per share computation compared to that derived before the assumed conversion.

24. Warrants exercisable at $20 each to obtain 50,000 shares of common stock were outstanding during a period when the average market price of the common stock was $25. Application of the treasury stock method for the assumed exercise of these warrants in computing diluted earnings per share will increase the weighted average number of outstanding shares by

|______ 50,000.

______ 40,000.

______ 10,000.

______ 12,500.

25. Antidilutive securities

______ Should be included in the computation of diluted earnings per share but not basic earnings per share.

______ Are those whose inclusion in earnings per share computations would cause basic earnings per share to exceed diluted earnings per share.

______ Include stock options and warrants whose exercise price is less than the average market price of common stock.

______ Should be ignored in all earnings per share calculations.

26. Angelo Co. had 800,000 shares of common stock outstanding on January 1, issued 112,000 shares on May 1, purchased 56,000 shares of treasury stock on September 1, and issued 48,000 shares on November 1. The weighted average shares outstanding for the year is

______ 845,333.

______ 864,000.

______ 882,667.

______ 901,333.

27. If the exercise price of the warrant is lower than the market price of the stock,

______ Antidilution occurs.

______ Dilution occurs.

______ EPS increases.

______ EPS does not change.

28. A stock option will be antidilutive

______ If the underlying market price of the stock is that can be purchased less than the exercise price of the option.

______ If the underlying market price of the stock that can be purchased is greater than the exercise price of the option.

______ If the underlying market price of the stock is equal to the exercise price of the option.

______ If the underlying market price of the stock is positive.

29. Which of the following items is NOT included in EPS disclosures?

______ Impact of preferred dividends.

______ Degree of operating leverage

______ Information on capital structure.

______ Number of shares converted.

30. A reconciliation between pro forma and U.S. GAAP EPS information is required by the ______________.

______ SEC Regulation G

______ FASB

______ AICPA

______ SEC Regulation C

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