30 ANALYZING INCOME STATEMENTS

1. The following information pertains the QRK Company:
   - One million shares of common stock outstanding at the beginning of 2005.
   - 200,000 shares issued on the last day of March.
   - 500,000 shares issued on the last day of June.
   - 800,000 shares issued on the last day of September.

   What is the number of shares that should be used to compute 2005 earnings per share for the QRK Company?
   (A) 1.6 million.
   (B) 1.9 million.
   (C) 2.5 million.

2. Suppose that JPK, Inc., paid dividends of $80,000 to its preferred shareholders and $40,000 to its common shareholders during 2004. The company had 20,000 shares of common stock issued and outstanding on January 1, 2004, issued 7,000 more shares on June 1, 2004, and paid a 10% stock dividend on August 1, 2004. Assuming that JPK had $150,000 in net income, what is the firm's basic earnings per share (EPS) for 2004?
   (A) $2.71.
   (B) $2.64.
   (C) $2.91.

3. Which of the following statements regarding basic and diluted EPS is least accurate?
   (A) A simple capital structure contains no potentially dilutive securities.
   (B) Antidilutive securities decrease EPS if they are exercised or converted.
   (C) Dilutive securities decrease EPS if they are exercised or converted to common stock.

4. Which expense recognition method is most appropriate for intangible assets with indefinite lives?
   (A) Test for impairment but do not amortize.
   (B) Use accelerated amortization for tax reporting and straight-line amortization for financial reporting.
   (C) Use straight-line amortization.

5. An analyst has gathered the following information about Artcraft, Inc. for the year:
   - Net income of $30,000.
   - 5,000 shares of common stock and 500 shares of 8%, $90 par convertible preferred stock outstanding during the whole year.
   - Each share of convertible preferred can be converted into 4 shares of common stock.
   - Last year, Artcraft issued at par, $60,000 total face value of 6.0% convertible bonds, with each of the 60 bonds convertible into 110 shares of the Artcraft common stock.

   If Artcraft's effective tax rate is 40%, what will Artcraft report as diluted earnings per share (EPS)?

   (A) $ 3.37.
   (B) $ 3.12.
   (C) $ 2.36.

6. Selected information from Caledonia, Inc.'s financial activities in the year 20X6 is as follows:
   - Net income = $ 460,000.
   - 2,300,000 shares of common stock were outstanding on January 1.
   - The average market price per share was $2 and the year-end stock price was $1.50.
   - 1,000 shares of 8%, $1,000 par value preferred shares were outstanding on January 1.
     Preferred dividends were paid in 20X6.
   - 10,000 warrants, each of which allows the holder to purchase 100 shares of common stock at an exercise price of $1.50 per common share, were outstanding the entire year.

   Caledonia's diluted earnings per share for 20X6 are closest to:

   (A) $ 0.165.
   (B) $ 0.15.
   (C) $ 0.180.

7. At the beginning of 2004, the Alaska Corporation had 2 million shares of common stock outstanding and no preferred stock. At the end of August, 2004, Alaska issued 600,000 new shares of common stock. If Alaska reported net income equal to $8.8 million, what was the firm's earnings per share for 2004?

   (A) $ 4.00.
   (B) $ 3.67.
   (C) $ 3.38.

8. In calculating the numerator for diluted Earnings Per Share, the interest on convertible debt is:

   (A) subtracted from earnings available to common shareholders after an adjustment for taxes.
   (B) added to earnings available to common shareholders after an adjustment for taxes.
   (C) added to earnings available to common shareholders.

9. Consider the following information on the past year's operating performance and current capital structure for the following two companies:

Supple Moves	Perfect Collection
Paid no dividends	Paid common & pref. div
Ave. Stock Price of $42.00	Ave. Stock Price of $22.00
Positive net income	Positive net income
110,000 warrants with an exercise price of $50.00	Convertible debt with an 8.0% coupon, conversion ratio at 10.0
	150,000 options outstanding with an exercise price of $19.50

Based on the information above, which of the companies has a complex capital structure?

(A) Supple Moves and Perfect Collection.

(B) Perfect Collection only.

(C) Supple Moves only.

10. A company has the following sequence of events regarding their stock:

- One million shares outstanding at the beginning of the year.
- On June 30th, they declared and issued a 10% stock dividend.
- On September 30th, they sold 400,000 shares of common stock at par.

Basic earnings per share at year-end will be computed on how many shares?

(A) 1,200,000.

(B) 1,100,000.

(C) 1,000,000.

11. Which type of a capital structure contains no dilutive securities?

(A) Simple.

(B) Basic.

(C) Complex.

12. Changes in asset lives and salvage values are changes in accounting:

(A) estimates and are applied prospectively.

(B) principle and are applied retrospectively.

(C) estimates and are applied retrospectively.

13. Selected information from Feder Corp.'s financial activities for the year is as follows:
- Net income was $7,650,000.
- 1,100,000 shares of common stock were outstanding on January 1.
- The average market price per share was $62.
- Dividends were paid during the year.
- The tax rate was 40%.
- 10,000 shares of 6% $1,000 par value preferred shares convertible into common shares at a rate of 20 common shares for each preferred share were outstanding for the entire year.
- 70,000 options, which allow the holder to purchase 10 shares of common stock at an exercise price of $50 per common share, were outstanding the entire year.

Feder Corp.'s diluted earnings per share (EPS) was closest to:

(A) $ 4.91.

(B) $ 5.87.

(C) $ 5.32.

14. Advantage Corp.'s capital structure was as follows:

	December 31, 2005	December 31, 2004
Outstanding shares of stock:		
Common	110,000	110,000
Convertible Preferred	10,000	10,000
% Convertible Bonds	$1,000,000	$1,000,000

During 2005, Advantage paid dividends of $3 per share on its preferred stock. The preferred shares are convertible into 20,000 shares of common stock. The 8% bonds are convertible into 30,000 shares of common stock. Net income for 2005 was $850,000. Assume the income tax rate is 30%.

Calculate Advantage's basic and diluted earnings per share (EPS) for 2005.

	Basic EPS	Diluted EPS
(A)	$7.45	$5.66
(B)	$6.31	$5.66
(C)	$7.45	$6.26

15. At the beginning of the year, BJC Company had 40,000 shares of $1 par common stock outstanding. On April 1, BJC issued a 2-for-1 stock split and on July 1, BJC reacquired 20,000 shares. On October 1, BJC issued 8,000 shares of $10 par, 5% cumulative preferred stock. How many shares should BJC use to calculate diluted earnings per share?

(A) 60,000.

(B) 62,000.

(C) 70,000.

16. Last year, the AKB Company had net income equal to $5 million. Combined state and local taxes were 45%. The firm paid $1 million to holders of its 1 million common shares and $250,000 to 100,000 preferred shareholders. What was AKB's earnings per share (EPS) last year?
    (A) $ 4.75.
    (B) $ 2.50.
    (C) $ 2.25.

17. The approach to revenue recognition in the converged accounting standards that were issued in May 2014 is best described as:
    (A) objectives-based.
    (B) principles-based.
    (C) rules-based.

18. Maine Company's stock transactions during the year are described below:

January 1	100,000 common shares outstanding
March 1	2 for 1 stock split
August 1	10% stock dividend

    The weighted average number of shares outstanding used to calculate earnings per share is:
    (A) 211,111.
    (B) 220,000.
    (C) 201,666.

19. Examples of potentially dilutive securities least likely include:
    (A) convertible preferred stock.
    (B) stock options.
    (C) premium bonds.

20. Selected information from Baltimore Corp's financial activities in the year 2004 is as follows:
- Net income was $ 4,200,000.
- 750,000 shares of common stock were outstanding on January 1.
- The average market price per share was $ 50 in 2004.
- Dividends were paid in 2004.

10,000 warrants, which allowed the holder to purchase 10 shares of common stock for each warrant held at a price of $40 per common share, were outstanding the entire year.

Baltimore's diluted earnings per share (Diluted EPS) for 2004 is closest to:

(A) $ 4.94.
(B) $ 5.45.
(C) $ 5.60.

21. A firm had the following numbers of shares outstanding during the year:

Beginning of year	8,000,000 shares
Issued on April 1	750,000 shares
Paid stock dividend of 20% on July 1	
Issued on October 1	100,000 shares
Purchased Treasury stock November 1	1,000,000 shares
Split 2 for 1 on December 31	

Based on this information, what is the weighted number of shares outstanding for the year?

(A) 20,266,667.
(B) 20,783,333.
(C) 42,444,444.

22. A simple capital structure is least likely to include:

(A) callable preferred stock.
(B) convertible bonds.
(C) treasury stock.

23. Stanley Corp. had 100,000 shares of common stock outstanding throughout 2004. It also had 20,000 stock options with an exercise price of $20 and another 20,000 options with an exercise price of $28. The average market price for the company's stock was $25 throughout the year. The stock closed at $30 on December 31, 2004. What are the number of shares used to calculate diluted earnings per share for the year?

(A) 105,000.
(B) 110,000.
(C) 104,000.

24. Under accrual accounting, revenues are recognized in the same period in which the associated:

(A) cash is collected.
(B) expenses are incurred.
(C) invoices are billed.

25. BWT, Inc. shows the following data in its financial statements at the end of the year. Assume all securities were outstanding for the entire year.
   - 6.125% convertible bonds, convertible into 33 shares of common stock. Issue price $ 1,000, 100 bonds outstanding.
   - 6.25% convertible preferred stock, $100 par, 2,315 shares outstanding. Convertible into 3.3 shares of common stock, Issue price $100.
   - 8% convertible preferred stock, $100 par, 2,572 shares outstanding. Convertible into 5 common shares, Issue price $80.
   - 9,986 warrants are outstanding with an exercise price of $38. Each warrant is convertible into 1 share of common. Average market price of common is $52.00 per share.
   - Common shares outstanding at the beginning of the year were 40,045.
   - Net Income for the period was $200,000, while the tax rate was 40%.

   What are the basic and diluted EPS for the year?

	Basic EPS	Diluted EPS
(A)	$ 4.12	$ 3.06
(B)	$ 4.12	$ 2.95
(C)	$ 3.97	$ 3.06

26. Securities that improve basic per share earnings, or reduce per share losses, if they are exercised or converted to common stock are called:
   (A) dilutive securities.
   (B) antidilutive securities.
   (C) embedded securities.

27. When considering convertible preferred stock which of the following components of the earnings per share (EPS) equation needs to be adjusted to calculate diluted earnings per share?
   (A) The denominator.
   (B) The numerator and denominator.
   (C) The numerator.

28. The Gaffe Company had net income of $1,500,000. Gaffe paid preferred dividends of $5 on each of the 100,000 preferred shares. Each preferred share is convertible into 20 common shares. There are 1 million Gaffe common shares outstanding. In addition to the common and preferred stock, Gaffe has $25 million of 4% bonds outstanding. If Gaffe's tax rate is 40%, what is its diluted earnings per share?
   (A) $0.33.
   (B) $0.50.
   (C) $1.00.

29. On December 31, 2004, JME Corporation had 350,000 shares of common stock outstanding. On September 1, 2005, an additional 150,000 shares of common stock were issued. In addition, JME had $10 million of 8% convertible bonds outstanding at December 31, 2004, which are convertible into 200,000 shares of common stock. Net income for 2005 was $ 3 million. Assuming an income tax rate of 40%, what amount should be reported as the diluted earnings per share for 2005?
   (A) $ 5.00.
   (B) $ 6.00.
   (C) $ 5.80.

30. Valuable Corp.'s basic earnings per share (EPS) and diluted EPS for the year are different. Given this information, which of the following statements is least accurate?
   (A) All of Valuable's potentially dilutive securities are antidilutive.
   (B) Diluted EPS is less than basic EPS.
   (C) Valuable Corp.'s capital structure may include both options and warrants.

31. The following data pertains to the Megatron company:
   - Net income equals $15,000.
   - 5,000 shares of common stock issued on January 1.
   - 10% stock dividend issued on June 1.
   - 1000 shares of common stock were repurchased on July 1.
   - 1000 shares of 10%, par $100 preferred stock each convertible into 8 shares of common were outstanding the whole year.

   How many common shares should be used in computing the company's basic earnings per share (EPS)?
   (A) 4,500.
   (B) 5,500.
   (C) 5,000.

32. An analyst gathered the following information about a company:
   - 01/01/06 - 20,000 shares issued and outstanding
   - 04/01/06 - 5.0% stock dividend
   - 07/01/06 - 5,000 shares repurchased
   - 10/01/06 - 2:1 stock split

   What is the company's weighted average number of shares outstanding at the end of 2006?
   (A) 37,000.
   (B) 39,500.
   (C) 47,000.

33. The Fischer Company had net income of $1,500,000. Fischer paid preferred dividends of $5 on each of the 100,000 preferred shares. There are 1 million Fischer common shares outstanding. In addition to the common and preferred stock, Fischer has $25 million of 4% bonds outstanding. The face value of each bond is $1,000. Each bond is convertible into 40 common shares. If Fischer's tax rate is 40%, determine its basic and diluted earnings per share (EPS)?

	Basic EPS	Diluted EPS
(A)	$1.00	$1.25
(B)	$1.00	$0.80
(C)	$1.50	$1.25

34. Zichron, Inc., had the following equity accounts on December 31:

- Common stock: 20,000 shares.
- Preferred stock A: 10,000 shares convertible into common on a 2 for 1 basis, dividend of $40,000 was declared during the year.
- Preferred stock B: 10,000 shares, convertible to common on a 4 for 1 basis, dividend of $5,000 was declared during the year.
- The company reported net income of $120,000 and paid a $20,000 dividend to its common shareholders.

Diluted earnings per share for the year are:

(A) $1.33.

(B) $1.50.

(C) $3.00.

35. During 20X3, Rory, Inc., reported net income of $15,000 and had 2,000 shares of common stock outstanding for the entire year. Rory also had 2,000 shares of 10%, $50 par value preferred stock outstanding during 20X3. During 20X1, Rory issued 100, $1,000 par, 6% bonds for $100,000. Each of the bonds is convertible to 50 shares of common stock. Rory's tax rate is 40%. Assuming these bonds are dilutive, 20X3 diluted EPS for Rory is closest to:

(A) $2.50.

(B) $1.23.

(C) $0.71.

36. An analyst gathered the following information about a company:

- 01/01/04 - 50,000 shares issued and outstanding at the beginning of the year
- 04/01/04 - 5% stock dividend
- 10/01/04 - 10% stock dividend

What is the company's weighted average number of shares outstanding at the end of 2004?

(A) 55,000.

(B) 57,500.

(C) 57,750.

37. At the beginning of its first year of business, Digmore Corporation acquires a fixed asset for $90 million and estimates that it will have a useful life of eight years and a salvage value of $10 million. Digmore expects the asset to produce 150 million units of output over its life, including 30 million units in each of the first three years, 20 million units in each of years 4 to 7, and 10 million units in year 8. If depreciation expense in the first year is $10 million, what method of depreciation did Digmore most likely use?
    (A) Double-declining-balance.
    (B) Units of production.
    (C) Straight Line.

38. Jersey, Inc.'s financial information included the following for its year ended December 31:
    - 160,000 shares of common stock were outstanding for the entire year.
    - 18,000 shares of 10%, $100 par value cumulative preferred stock were outstanding for the entire year.
    - Common stock dividends paid during the current year were $240,000.
    - All preferred stock dividends were paid for the current year.
    - Net income was $720,000.

    Basic earnings per share for Jersey, Inc. for the year ended December 31 are closest to:
    (A) $ 3.38.
    (B) $ 2.81.
    (C) $ 4.50.

39. The Allen Corporation had 100,000 shares of common stock outstanding at the beginning of the year. Allen issued 30,000 shares of common May 1. On July 1, the company issued a 10% stock dividend. On September 1, Allen issued 1,000, 10% bonds convertible into 21 shares of stock each. What is the weighted average number of shares to be used in computing basic and diluted earnings per share (EPS), assuming the convertible bonds are dilutive?

	Basic Shares	Diluted Shares
(A)	130,000	132,000
(B)	132,000	139,000
(C)	132,000	146,000

40. Lawson, Inc.'s net income for the year was $1,060,000 with 420,000 shares of common stock outstanding. Lawson has 2,000 shares of 8%, $1,000 par value convertible preferred stock that were outstanding the entire year. Each share of preferred is convertible into 50 shares of common stock. Lawson's diluted earnings per share are closest to:
    (A) $ 1.94.
    (B) $ 2.04.
    (C) $ 2.14.

41. The ZZT Company went public on June 1, 2004, by issuing 25 million shares of common stock. In 2005, the firm raised additional capital by issuing 2 million shares of preferred stock. What is the weighted average number of common shares outstanding for the year ending December 31, 2005?
    (A) 10,416,667.
    (B) 25,000,000.
    (C) 14,583,333.

42. A firm has a weighted average number of 20,000 common shares selling at an average of $10 throughout the year and 11,000, 10%, $100 par value preferred shares. If the firm earns $210,000 after taxes, what is its Basic EPS?
    (A) $ 10.50 / share.
    (B) $ 5.00 / share.
    (C) $ 7.50 / share.

43. Firewalz, Inc., had 500,000 shares of common stock and 20,000 shares of 6%, $100 par preferred stock outstanding at the beginning of the year. Each share of the preferred can be converted into two shares of common stock. On July 1, the company repurchased 100,000 shares of its common stock. If net income for the year is $1.2 million, the reported diluted EPS for the year is closest to:
    (A) $ 2.42.
    (B) $ 2.40.
    (C) $ 2.45.

44. Juniper Corp's stock transactions during the year 20X4 were as follows:

January 1	540,000 shares issued and outstanding
March 1	50 percent stock dividend
July 1	180,000 treasury shares reacquired
October 1	60,000 treasury shares reissued

When computing for earnings per share (EPS) computation purposes, what was Juniper's weighted average number of shares outstanding during 20X4?
    (A) 735,000.
    (B) 870,000.
    (C) 930,000.

45. Assume that the exercise price of an option is $6, and the average market price of the stock is $10. Assuming 802 options are outstanding during the entire year, the number of shares to be added to the denominator of diluted earnings per share (EPS) is closest to:
    (A) 802.
    (B) 321.
    (C) 481.

46. Robinson Company had 1 million shares outstanding at the beginning of the year. On April 1, Robinson issued an additional 300,000 shares. On July 1, Robinson issued 200,000 more shares. What is Robinson's weighted average number of shares outstanding for the calculation of earnings per share?
    (A) 1,200,000 shares.
    (B) 1,325,000 shares.
    (C) 1,500,000 shares.

47. A firm with a capital structure consisting of only common stock and non-convertible bonds is said to have a:
    (A) simple capital structure.
    (B) non-diluted capital structure.
    (C) straight capital structure.

48. Savannah Corp.'s financial accounts for the year ended December 31 included the following information:
    - Net Income: $122,000
    - Preferred Stock Dividends Paid: $35,000
    - Common Stock Dividends Paid: $42,000
    - Common Shares outstanding at January 1: 50,000
    - 10% preferred $100 par value shares outstanding at January 1: 3,500

    No stock transactions occurred during the year and all preferred stock dividends were paid. Basic earnings per share for Savannah are closest to:
    (A) $ 2.44.
    (B) $ 0.90.
    (C) $ 1.74.

49. A complex capital structure, for purposes of determining disclosure of diluted earnings per share, is distinguished from a simple capital structure by the company having outstanding:
    (A) warrants, convertible securities, or options.
    (B) preferred stock, warrants, or options.
    (C) debt securities or convertible securities.

50. A 12 percent $100,000 convertible bond was issued on October 1, 2004. It is dilutive and can be converted into 18,000 shares. The effective income tax rate for the year was 40%. What adjustments should be made to calculate diluted earnings per share?

	Interest added to the numerator	Shares added to the denominator
(A)	$3,000	4,500
(B)	$1,800	4,500
(C)	$3,000	18,000

51. All of the following are considered a potentially dilutive securities EXCEPT:
   (A) warrants.
   (B) preferred stock.
   (C) stock options.

52. Protocol, Inc.'s net income for 2005 was $4,800,000. Protocol had 800,000 shares of common stock outstanding for the entire year. The tax rate was 40 percent. The average share price in 2005 was $37.00. Protocol had 5,000 8 percent $1,000 par value convertible bonds that were issued in 2004. Each bond is convertible into 25 shares of common stock. Protocol, Inc.'s basic and diluted earnings per share for 2005 were closest to:

	Basic EPS	**Diluted EPS**
(A)	$5.19	$4.92
(B)	$6.00	$5.45
(C)	$6.00	$4.92

53. The following information is for Trotters Diversified as of year-end:
   - Average common shares outstanding of 5.0 million.
   - Average market price for common stock of $35.00 per share.
   - Net income of $9.0 million.
   - Common stock dividends paid of $1.2 million.
   - Tax rate of 40%.
   - 500,000 shares of cumulative convertible preferred stock with $30 par value and 10% dividend. Each preferred share is convertible into 5 common shares. Preferred dividends of $1.5 million were paid.
   - 10,000 convertible $1,000 par bonds with a 6.0% coupon, each convertible into 8 shares of common stock.
   - 400,000 stock options with an exercise price of $32.00 per share.
   - All of these securities were outstanding for the full year.

   Diluted EPS for Trotters Diversified is closest to:
   (A) $1.19.
   (B) $1.50.
   (C) $1.23.

54. In applying the treasury stock method, if warrants allow the purchase of 1 million shares at $42 per share when the average price is $56 per share, how many shares will be added to the firm's weighted average number of shares outstanding?
   (A) 250,000.
   (B) 420,000.
   (C) 1,000,000.

55. Which costs are least likely to be reported as an expense in the current accounting period?
   (A) Costs of producing inventory.
   (B) Loan interest that has not yet been paid.
   (C) Period costs.

56. Moulding Company's net income was $13,820,000 with 2,600,000 shares outstanding. The average share price for the year was $58.00. Moulding had 10,000 options to purchase 10 shares each at $40 per share outstanding the entire year. Moulding Company's diluted earnings per share are closest to:
   (A) $ 3.71.
   (B) $ 5.25.
   (C) $ 5.32.

57. Selected information from Gerrard, Inc.'s financial activities in the most recent year was as follows:
   - Net income was $330,000.
   - The tax rate was 40%.
   - 700,000 shares of common stock were outstanding on January 1.
   - The average market price per share for the year was $6.
   - Dividends were paid during the year.
   - 2,000 shares of 8% $500 par value preferred shares, convertible into common shares at a rate of 200 common shares for each preferred share, were outstanding for the entire year.
   - 200,000 shares of common stock were issued on March 1.

   Gerrard, Inc.'s diluted earnings per share (diluted EPS) was closest to:
   (A) $ 0.197.
   (B) $ 0.289.
   (C) $ 0.261.

58. Which of the following statements regarding the treasury stock method of computing diluted shares is least accurate? The treasury stock method:
   (A) assumes that the hypothetical funds received by the company from the exercise of the options are used to sell shares of the company's common stock in the market at the average market price.
   (B) increases the total number of shares by less than the number that the exercise of the options would create.
   (C) is used when the exercise price of the option is less than the average market price.

59. Selected information from Doors, Inc.'s financial activities in the year 2005 included the following:
- Net income was $372,000.
- 100,000 shares of common stock were outstanding on January 1.
- The average market price per share was $18 in 2005.
- Dividends were paid in 2005.
- 2,000, 6 percent $1,000 par value convertible bonds, which are convertible at a ratio of 25 shares for each bond, were outstanding the entire year.
- Doors, Inc.'s tax rate is 40%.

Doors, Inc.'s diluted earnings per share (Diluted EPS) for 2005 was closest to:

(A) $ 2.96.
(B) $ 3.28.
(C) $ 3.72.

60. An analyst gathered the following data about a company:
- The company had 500,000 shares of common stock outstanding for the entire year.
- The company's beginning stock price was $40, its ending price was $60, and its average price over the year was $50.
- The company has 120,000 warrants outstanding for the entire year.
- Each warrant allows the holder to buy one share of common stock at $45 per share.

How many shares of common stock should the company use in computing its diluted earnings per share?

(A) 500,000.
(B) 488,000.
(C) 512,000.

61. Using the following information for Boxes, Inc.:
- Net income $53,000,000
- Outstanding 7% preferred stock, par value $30,000,000
- Outstanding convertible bonds, face value of $10,000,000, Issued on January 1 at par with a coupon rate of 6% and convertible at the rate of 20 shares per 1,000 of face value
- 100,000 options at 55 outstanding all year
- Tax rate 30%
- 3,000,000 common shares outstanding all year
- Stock price 60 at year-end, average stock price over the year 50.

Diluted EPS is closest to:

(A) $15.00.
(B) $16.00.
(C) $17.00.

62. Assume that the exercise price of an option is $9, and the average market price of the stock is $12. Assuming 992 options are outstanding during the entire year, what is the number of shares to be added to the denominator of the Diluted EPS?
(A) 992.
(B) 248.
(C) 744.

63. Nichols Company's net income for 20X6 was $978,000 with 1,250,000 shares outstanding. The average share price in 20X6 was $8.50. Nichols issued 2,000 warrants to purchase 100 shares each for $10 per share in 20X5. Nichols Company's diluted earnings per share (diluted EPS) for 20X6 is closest to:
(A) $0.793.
(B) $0.777.
(C) $0.782.

64. Washington, Inc.'s stock transactions during the year 20X4 were as follows:

January 1	720,000 Share outstanding
March 1	2 for 1 stock split occurred

What was Washington's weighted average number of shares outstanding during 20X4, for earnings per share (EPS) computation purposes?
(A) 1,440,000.
(B) 1,500,000.
(C) 1,666,667.

65. The following data pertains to the McGuire Company:
- Net income equals $15,000.
- 5,000 shares of common stock issued on January 1.
- 10% stock dividend issued on June 1.
- 1000 shares of common stock were repurchased on July 1.
- 1000 shares of 10%, par $100 preferred stock each convertible into 8 shares of common were outstanding the whole year.

What is the company's basic earnings per share (EPS)?

(A) $2.50.

(B) $1.00.

(C) $1.20.

66. During 2004, Covax Corp. reported net income of $2.4 million and 2 million shares of common stock. Covax paid cash dividends of $14,000 to its preferred shareholders and $30,000 to its common shareholders. In 2004, Covax issued 900, $1,000 par, 5.5 percent bonds for $900,000. Each bond is convertible to 50 shares of common stock. Assume the tax rate is 40%. Compute Covax's basic and diluted EPS.

	Basic EPS	Diluted EPS
(A)	$ 1.19	$ 1.18
(B)	$ 1.19	$ 1.22
(C)	$ 1.22	$ 1.22

67. A company has convertible preferred stock outstanding. In the computation of diluted earnings per share, common shares issued when convertible preferred stock is converted are added to the denominator of the basic EPS equation, and the numerator is:

(A) adjusted by adding back convertible preferred stock dividends.

(B) adjusted by adding back non-convertible preferred stock dividends.

(C) not adjusted.

68. Selected information from Jupiter Corp.'s financial activities in the year 20X5 is as follows:

- Net income is $18,300,000.
- 115,000 shares of common stock were outstanding on January 1.
- The average market price per share was $150 in 20X5.
- 200 warrants, which each allow the holder to purchase 100 shares of common stock at an exercise price of $100 per common share, were outstanding the entire year.
- 60,000 shares of common stock were issued on April 1.
- 45,000 shares of common stock were purchased by the company as treasury stock on

October 1.

Jupiter Corp.'s diluted earnings per share for 20X5 are closest to:

(A) $117.75.

(B) $123.02.

(C) $159.13.

69. An analyst has gathered the following information about Zany Corp.

- Net income of $200,000 for the year ended December 31, 2004.
- During 2004, 50,000 common shares were outstanding.
- Zany has 10,000 shares of 7%, $50 par convertible preferred stock outstanding, each convertible into two shares of common.
- 5,000 warrants are outstanding with an exercise price of $24. Each warrant is convertible into one common share.
- The average market price per common share during 2004 was $20.

Calculate Zany's basic and diluted earnings per share (EPS) for 2004.

	Basic EPS	Diluted EPS
(A)	$3.30	$2.86
(B)	$4.00	$2.86
(C)	$3.30	$2.00

70. When considering the impact of warrants on earnings per share, the method to calculate the number of shares added to the denominator is derived using which method?

(A) Cost recovery method.
(B) Treasury Stock method.
(C) Weighted average method.

71. In calculating the numerator for diluted earnings per share, the dividends on convertible preferred stock (if it is dilutive) are:

(A) added to earnings available to common shareholders without an adjustment for taxes.
(B) subtracted from earnings available to common shareholders without an adjustment for taxes.
(C) added to earnings available to common shareholders with an adjustment for taxes.

72. A company has 1,000,000 warrants outstanding at the beginning of the year, each convertible into one share of stock with an exercise price of $50. No new warrants were issued during the year. The average stock price during the period was $60, and the year-end stock price was $45. What adjustment for these warrants should be made, under the treasury stock method, to the number of shares used to calculate diluted earnings per share (EPS)?

(A) 0.
(B) 200,000.
(C) 166,667.

73. A company had the following changes in its stock:
- The company had 2 million shares outstanding on December 31, 20X6.
- On March 31, 20X7, the company paid a 10% stock dividend.
- On June 30, 20X7, the company sold $10 million face value of 7% convertible
- debentures, convertible into common at $5 per share.
- On September 30, 20X7, the company issued and sold 100,000 shares of common stock.

The company should compute its 20X7 basic earnings per share based on:

(A) 2,225,000 shares.
(B) 2,250,000 shares.
(C) 3,225,000 shares.

74. Based on the following data, how many shares of common stock should be used to calculate diluted earnings per share?
- Net income of $1,500,000, tax retention rate of 60%.
- 1,000,000 shares of common are outstanding at the beginning of the year.
- 10,000, 6% convertible bonds with each bond convertible into 20 shares of common stock were issued at par ($100) on June 30 th of this year.
- The firm has 100,000 warrants outstanding all year with an exercise price of $25 per share.
- The average stock price for the period is $20, and the ending stock price is $30.

(A) 1,100,000.
(B) 1,000,000.
(C) 1,266,667.

75. Antidilutive securities should be assumed to have been converted to common shares when calculating:

(A) basic EPS but not diluted EPS.
(B) diluted EPS but not basic EPS.
(C) neither basic nor diluted EPS.

76. Roome Corp. has 5,000,000 common shares outstanding. There are 500,000 warrants outstanding to purchase the stock at $20, and there are 200,000 options outstanding to buy the stock at $50. The average market price for the stock over the year was $40, and the current stock price is $60. The number of shares used to calculate diluted EPS is:

(A) 5,300,000 shares.
(B) 5,700,000 shares.
(C) 5,250,000 shares.

77. An analyst has gathered the following information about Barnstabur, Inc., for the year:

- Reported net income of $30,000.
- 5,000 shares of common stock and 2,000 shares of 8%, $90 par preferred stock outstanding during the whole year.
- Barnstabur, has $60,000 of 6.0% convertible bonds outstanding, with each of the 60 bonds convertible into 110 shares of Barnstabur common stock.

If Barnstabur's effective tax rate is 40%, what will Barnstabur report for diluted earnings per share (EPS)?

(A) $ 1.53.
(B) $ 1.66.
(C) $ 2.36.

78. Selected information from Able Company's financial activities is as follows:

Net Income was $720,000.

- 1,000,000 shares of common stock were outstanding on January 1.
- 1,000 shares of 8%, $1,000 par value preferred shares were outstanding on January 1.
- The tax rate was 40%.
- The average market price per share for the year was $20.
- 6,000 shares of 3%, $500 par value preferred shares, convertible into common shares at a rate of 40 common shares for each preferred share, were outstanding for the entire year.

Able's basic and diluted earnings per share (EPS) are closest to:

	Basic EPS	Diluted EPS
(A)	$0.55	$0.55
(B)	$0.55	$0.52
(C)	$0.64	$0.64

79. Matrix, Inc.'s common size income statement for the years ended December 31, 20X1 and 20X2 included the following information (percent of net sales):

	20X1	20X2
Sales	100	100
Cost of Goods Sold	(55)	(60)
	45	40
Selling General & Administrative	(5)	(5)
Depreciation	(7)	(8)
	33	27
Interest Expense	(15)	(6)
	18	21
Income Tax Expense	(6)	(7)
	12	14

Analysis of this data indicates that from 20X1 to 20X2:

(A) cost of goods sold increased.

(B) interest expense per dollar of sales declined.

(C) the effective tax rate increased.

80. An analyst gathers the following data about a company:

- The company had 1 million shares of common stock outstanding for the entire year.
- The company's beginning stock price was $50, its ending price was $70, and its average price was $60.
- The company had 100,000 warrants outstanding for the entire year. Each warrant allows the holder to buy one share of common stock at $50 per share.

How many shares of common stock should the company use in computing its diluted earnings per share?

(A) 1,100,000.

(B) 1,016,667.

(C) 1,083,333.

81. How will dilutive securities affect earnings per share (EPS) when determining diluted earnings per share?

(A) Either decrease or increase EPS depending upon if the security is dilutive or antidilutive.

(B) Increase EPS.

(C) Decrease EPS.

82. Gus Davy, CFA, is reviewing an industry that has been experiencing rising prices as well as unit volume growth. Davy's investment criteria include selecting companies generating the highest profit margins. If Davy does not adjust companies' financial statements for their inventory cost assumptions, he is most likely to select companies that use:

(A) FIFO.

(B) LIFO.

(C) weighted average cost.

83. Which of the following statements about the earnings per share calculation are most accurate?

(A) If the diluted EPS is less than the basic EPS, then the diluted EPS is said to be antidilutive.

(B) None of these choices are correct.

(C) When calculating diluted EPS you must add the shares created from the conversion of the bonds to the denominator and the interest expense times the tax rate to the numerator.

84. As of the beginning of the year HalfPass Productions, Inc., had the following complex capital structure:

- 3,000,000 common shares outstanding.
- 175,000 options with an exercise price of $ 22.
- 250,000 warrants with an exercise price of $ 18.

During the year:

- On March 1, the company issued 100,000 new shares of common stock.
- On July 1, the board of directors declared a 15% stock dividend.
- On September 1, the company repurchased 125,000 shares.
- Net income (after-tax) for the year was $7,500,000.
- The company paid common dividends of $2,750,000 and preferred dividends of $1,300,000.
- The average market price for the common stock was $25 per share.

Assume the fiscal year is January 1 through December 31. At year end, HalfPass's basic EPS is closest to:

(A) $1.66.
(B) $1.77.
(C) $1.94.

85. Bluff, Inc.'s stock transactions during the year were as follows:

January 1	90,000 common shares outstanding.
April 1	20% stock dividend is declared and issued.
October 1	10,000 shares are reacquired as treasury stock.

What is Bluff's weighted average number of shares outstanding during the year?

(A) 98,000.
(B) 101,000.
(C) 105,500.

86. Ajax Company has a simple capital structure. Which of the following will NOT be found on its balance sheet?

(A) 10%, secured mortgage bond denominated in Swiss francs.
(B) 3%, $100 par value convertible bond.
(C) 6%, $50 par value callable bond.

87. Which of the following statements regarding making changes in accounting principles is least accurate?

(A) Changes in accounting estimates are now treated the same as changes in accounting principles.

(B) A change in accounting principle is a change from one generally accepted accounting principle to another generally accepted principle. The firm making the change must justify the change.

(C) The general rule is retrospective application.

88. An analyst has gathered the following information about a company:

- 110,000 shares of common outstanding at the beginning of the year.
- The company repurchases 20,000 of its own common shares on July 1.
- Net income is $300,000 for the year.
- 10,000 shares of existing 10 percent cumulative $100 par preferred outstanding that is not in arrears at the beginning or ending of the year.
- The company also has $1 million in 10 percent callable bonds outstanding.
- The company has declared a $0.50 dividend on the common.

What is the company's basic Earnings Per Share?

(A) $ 1.00.

(B) $ 2.00.

(C) $ 3.00.

89. An analyst prepares the following common-size income statements for Perez Company:

	20X1	20X2	20X3
Sales	100	100	100
Cost of goods			
sold	50%	52%	53%
Selling and			
administrative	16%	12%	9%
expense			
Interest	4%	4%	4%
income			
Pretax	30%	32%	34%
income			
Income tax	15%	16%	17%
expense			
Net income	15%	16%	17%

Based only on this information, Perez's improving net profit margin is most likely a result of:

(A) improving gross margins.
(B) greater financial leverage.
(C) controlling operating expenses.

90. According to the standards for revenue recognition, a promise to transfer a distinct good or service is most accurately described as a:

(A) contract.
(B) performance obligation.
(C) transaction.

91. Retrospective presentation is least likely required for a change from:

(A) LIFO to average cost inventory valuation.
(B) percentage-of-completion to completed contract revenue recognition.
(C) zero salvage value to positive salvage value.

92. A company changes from an incorrect method of accounting to an acceptable one. Which of the following statements about this change is most accurate?

(A) It requires restatement of any prior period results that are presented in the current financial statements.
(B) It is a change in accounting principle and is reported below the line net of taxes.
(C) It is an unusual or infrequent item and is reported in net income from continuing operations.

93. Which of the following debt securities issued by a company would give it a complex capital structure?

(A) Convertible bonds.
(B) Floating rate notes.
(C) Asset-backed securities.

94. The SSP Company had 5 million shares outstanding on January 1. On February 15 the board of directors approved a 3:2 stock split, effective April 1. What is the weighted average number of shares outstanding for the SSP Company for year-end?

(A) 5,625,000 shares.
(B) 6,875,000 shares.
(C) 7,500,000 shares.

95. At the beginning of 2004, Osami Corporation had 1.4 million shares of common stock outstanding and no preferred stock. At the end of August 2004, Osami issued 1.2 million new shares of common stock. If Osami reported net income equal to $7.2 million, what were its earnings per share (EPS) for 2004?

(A) $2.77.
(B) $3.33.
(C) $4.00.

96. When a firm recognizes revenue in excess of expenses on a product before cash is collected, what is the impact on the firm's assets and liabilities, ignoring taxes?

	Assets	Liabilities
(A)	Increase	No effect
(B)	No effect	Increase
(C)	Increase	Increase

97. CXW, Inc. has issued 9,986 warrants, which were outstanding for the entire year, with an exercise price of $38. Each warrant is convertible into 1 share of common. The average market price of CXW's common stock for the year is $52.00 per share and its price at the end of the year is $45.00 per share. In the calculation of CXW's diluted earnings per share, how many new shares would theoretically need to be issued to facilitate warrant conversion?

(A) 2,689.

(B) 8,433.

(C) 9,986.

98. Connecticut, Inc.'s stock transactions during the year 20X5 were as follows:

January 1: 360,000 common shares outstanding.

April 1: 1 for 3 reverse stock split.

July 1: 60,000 common shares issued.

When computing for earnings per share (EPS) computation purposes, what is Connecticut's weighted average number of shares outstanding during 20X5?

(A) 210,000.

(B) 140,000.

(C) 150,000.

99. Capitalizing interest costs related to a company's construction of assets for its own use is required by:

(A) both IFRS and U.S. GAAP.

(B) U.S. GAAP only.

(C) IFRS only.

100. Which of the following securities would least likely be found in a simple capital structure?

(A) 3%, $ 100 par value convertible preferred.

(B) 6%, $ 5000 par value putable bond.

(C) 7%, $100 par value non convertible preferred.

101. Young Distributors, Inc. issued convertible bonds two years ago, and those bonds are the only potentially dilutive security Young has issued. In 20X5, Young's basic earnings per share (EPS) and diluted EPS were identical, but in 20X4 they were different. Which of the following factors is least likely to explain the difference between basic and diluted EPS? The:

(A) bonds were redeemed by Young Distributors at the beginning of 20X5.

(B) average market price of Young common stock increased in 20X5.

(C) bonds were antidilutive in 20X5 but not in 20X4.

102. A firm has had the following numbers of shares outstanding during the year:

Beginning of year	10,000,000 shares
Issued on April 1	500,000 shares
Split 2 for 1 on July 1	
Issued on October 1	100,000 shares
Split 2 for 1 on December 31	

Based on this information, what is the weighted number of shares outstanding for the year?

(A) 20,780,000.

(B) 42,400,000.

(C) 41,550,000.

103. Orange Company's net income for 2004 was $7,600,000 with 2,000,000 shares outstanding. The average share price in 2004 was $55. Orange had 10,000 shares of eight percent $1,000 par value convertible preferred stock outstanding since 2003. Each preferred share was convertible into 20 shares of common stock. Orange Company's diluted earnings per share (Diluted EPS) for 2004 is closest to:

(A) $ 3.80.

(B) $ 3.40.

(C) $ 3.45.

104. Zachary Company's warrants issued in 2000 are Zachary's only outstanding potentially dilutive security. In 2005, EPS and Dilutive EPS differed for the first time. A possible explanation for the change is the:

(A) average market price of Zachary decreased.

(B) average market price of Zachary increased.

(C) year-end market price of Zachary increased.

105. Which of the following statements is CORRECT regarding the reporting of earnings per share (EPS)?
   (A) The EPS when antidilutive securities are converted into shares of common stock is less than basic EPS.
   (B) Basic EPS can be less than diluted EPS.
   (C) Diluted EPS must be less than or equal to basic EPS.

106. The Widget Company had net income of $1 million for the period. There were 1 million shares of widget common stock outstanding for the entire period. If there are 100,000 options outstanding with an exercise price of $40, what is the diluted earnings per share for Widget common stock if the average price per share over the period was $50?
   (A) $ 1.00.
   (B) $ 0.98.
   (C) $ 0.99.

107. Rushford Corp.'s net income is $16,500,000 with 300,000 shares outstanding. The tax rate is 40%. The average share price for the year was $372. Rushford has 50,000, 9%, $1,000 par value convertible bonds outstanding. Each bond is convertible into two shares of common stock.
   Rushford Corp.'s basic and diluted earnings per share (EPS) are closest to:

	Basic EPS	Diluted EPS
(A)	$55.00	$48.00
(B)	$65.63	$48.00
(c)	$55.00	$51.56

108. Which of the following statements about the calculation of earnings per share (EPS) is least accurate?
   (A) Shares issued after a stock split must be adjusted for the split.
   (B) Reacquired shares are excluded from the computation from the date of reacquisition.
   (C) Options outstanding may have no effect on diluted EPS.

109. Ajax Company's capital structure was as follows:

	December 31, 2004	December 31, 2003
Outstanding shares of stock		
Common	200,000	200,000
Convertible preferred	5,000	5,000
6% Convertible Bonds	$500,000	$500,000

- `During 2004, Ajax paid dividends of $2.00 per share on its preferred stock.
- The preferred shares are convertible into 10,000 shares of common stock.
- The 6% bonds are convertible into 15,000 shares of common stock.
- Net income for 2004 was $400,000.
- Assume that income tax rate is 40%.

Ajax's basic and diluted earnings per share for 2004 are:

	Basic EPS	Diluted EPS
(A)	$1.80	$1.86
(B)	$1.95	$1.86
(c)	$1.95	$1.95

110. Assume that the exercise price of an option is $10, and the average market price of the stock is $13. Assuming 999 options are outstanding during the entire year, what is the number of shares to be added to the denominator of the diluted earnings per share (EPS)?
   (A) 231.
   (B) 768.
   (C) 999

111. Assume that the exercise price of an option is $11, and the average market price of the stock is $16. Assuming 1,039 options are outstanding during the entire year, what is the number of shares to be added to the denominator of the Diluted EPS?
   (A) 1,039.
   (B) 325.
   (C) 714.

112. Zichron, Inc., had the following equity accounts on December 31:
   - Common stock: 20,000 shares.
   - Preferred stock A: 10,000 shares convertible into common on a 2 for 1 basis, dividend
   - of $40,000 was declared during the year.
   - Preferred stock B: 10,000 shares, convertible to common on a 4 for 1 basis, dividend of $5,000 was declared during the year.
   - The company reported net income of $120,000 and paid a $20,000 dividend to its common shareholders.

   Basic earnings per share for the year are:
   (A) $ 2.00.
   (B) $ 2.75.
   (C) $ 3.75.

113. A company has the following sequence of events regarding its stock:
- The company had 1,000,000 shares outstanding at the beginning of the year.
- On June 30, the company declared and issued a 10% stock dividend.
- On September 30, the company sold 400,000 shares of common stock at par.

The number of shares that should be used to compute basic earnings per share at year end is:

(A) 1,100,000.
(B) 1,000,000.
(C) 1,200,000.

114. At the beginning of this year Aristotle Co. had 400,000 shares of common stock outstanding. During the year, Aristotle paid a 10 percent stock dividend on May 31, issued 90,000 new common shares on June 30, and repurchased 12,000 shares on December 1. The number of shares Aristotle should use in computing earnings per share at the end of the year is:

(A) 476,000.
(B) 475,000.
(C) 484,000.

115. Quad Associates, Inc.'s net income for 2005 was $892,000 with 400,000 shares outstanding. The tax rate was 40 percent. Quad had 2,000 six percent $1,000 par value convertible bonds that were issued in 2004. Each bond was convertible into 40 shares of common stock. Quad, Inc.'s diluted earnings per share (Diluted EPS) for 2005 was closest to:

(A) $ 2.23.
(B) $ 2.41.
(C) $ 2.01.

116. Securities are considered to be dilutive to earnings per share if:

(A) they can be converted to common shares now or at any time in the future.
(B) converting them to common shares would actually reduce earnings per share, compared to basic earnings per share.
(C) converting them to common shares would decrease earnings available to common shareholders.

117. Trotters Diversified has 10,000 convertible bonds with a 6.0% coupon and $1,000 par value, each convertible into 8 shares of common stock. How many shares related to the convertible bonds should be included in the denominator of basic EPS?

(A) 0.
(B) 10,000.
(C) 80,000.

118. Selected information from Indigo Corp.'s financial activities in the year 20X9 included the following:

- Net income is $ 5,600,000.
- The tax rate is 40%.
- 500,000 shares of common stock were outstanding on January 1.
- The average market price per share was $82 in 20X9.
- 6,000 5% coupon $1,000 par value convertible bonds, which are convertible at a ratio of 20 shares for each bond, were outstanding the entire year.
- 200,000 shares of common stock were issued on July 1.
- 100,000 shares of common stock were purchased by the company as treasury stock on October 1.

Indigo Corp.'s diluted earnings per share for 20X9 are closest to:

A) $ 8.32.

(B) $ 8.49.

(C) $ 9.74.

119. The first-in-first-out (FIFO) expense recognition method for inventories best describes the physical flow of goods if customers typically purchase units:

(A) from the top of a stack.

(B) in the same order the units are produced.

(C) selectively from among all units for sale.

120. Kendall Company's net income for 20X4 is $830,000 with 200,000 shares outstanding. Kendall has 1,000 6% convertible bonds (each bond $1,000 face value and convertible into 20 common shares) outstanding for the entire year. Kendall's tax rate is 40%. What is Kendall Company's diluted earnings per share for 20X4?

(A) $3.77.

(B) $3.94.

(C) $4.15.

121. Assume that the exercise price of an option is $5, and the average market price of the stock is $8. Assuming 816 options are outstanding during the entire year, what is the number of shares to be added to the denominator of the diluted EPS?

(A) 306.

(B) 510.

(C) 816.

122. A firm's financial statements reflect the following:

Net income	$ 1,700,000
EBIT	$ 2,900,000
Effective tax rate	35%
Interest payments	$ 285,000
Common equity	$ 3,100,000
Total assets	$ 6,600,000
Preferred dividends paid	$ 1,100,000
Weighted avg. shares outstanding	523,000

Based on this information, what is the firm's basic EPS?

(A) $1.15.

(B) $3.25.

(C) $2.75.

123. Selected financial ratios from Mulroy Company's common-size income statements are as follows:

	20X1	20X2	20X3
Gross profit margin	22%	24%	26%
Operating profit margin	18%	20%	22%
Pretax margin	15%	14%	13%
Net profit margin	11%	10%	9%

Relative to sales, it is most likely that Mulroy's:

(A) nonoperating expenses are increasing.

(B) operating expenses are increasing.

(C) income tax expense is increasing.

124. For a firm with a simple capital structure, all of the following are necessary to measure basic earnings per share (EPS) EXCEPT:

(A) dividends paid to common shareholders.

(B) the timing and number of shares issued or repurchased during the year.

(C) dividends paid to preferred shareholders.

125. The following data pertains to the Sapphire Company:
- Net income equals $15,000.
- 5,000 shares of common stock issued on January 1st.
- 10% stock dividend issued on June 1st.
- 1,000 shares of common stock were repurchased on July 1st.
- 1,000 shares of 10%, $100 par preferred stock each convertible into 8 shares of common were outstanding the whole year.

What is the company's diluted earnings per share (EPS)?

(A) $1.15.

(B) $2.50.

(C) $1.00.

126. The following information pertains to Bender, Inc., for last year:
- Net income of $25 million.
- 1 million shares of $10 par value preferred stock outstanding paying a 10% dividend.
- 50 million shares of common stock outstanding at the beginning of the year.
- Issued an additional 5 million shares of common stock on 7/1.

What is Bender, Inc.'s basic earnings per share (EPS)?

(A) $0.384.

(B) $0.457.

(C) $0.476.

127. An analyst compiled the following information from Hampshire, Inc.'s financial activities in the most recent year:
- Net income was $2,800,000.
- 100,000 shares of common stock were outstanding on January 1.
- The average market price per share for the year was $250.
- 10,000 shares of 6%, $1,000 par value preferred shares were outstanding the entire year.
- 10,000 warrants, which allow the holder to purchase 10 shares of common stock for each warrant held at a price of $150 per common share, were outstanding the entire year.
- 30,000 shares of common stock were issued on September 1.

Hampshire, Inc.'s diluted earnings per share are closest to:

(A) $20.00.

(B) $14.67.

(C) $18.38.

28. Sampson Corp. had 500,000 shares of common stock outstanding at the beginning of the year. The average market price was $20.

- On April 1, Sampson issued 100,000 shares of $1000 par value 10 percent preferred stock.
- On July 1, Sampson issued 200,000 warrants to purchase 10 shares of common stock each at $22 per share.
- On October 1, Sampson repurchased 60,000 of common stock as treasury stock for $15 per share.

The weighted average common shares outstanding Sampson should use to compute basic earnings per share (EPS) was:

(A) 515,000.

(B) 600,000.

(C) 485,000.

129. Oregon Corp.'s stock transactions during the year were as follows:

- January 1: 320,000 shares outstanding.
- April 1: 1-for-2 reverse stock split occurred.
- July 1: Acquisition of Smith, Inc. in exchange for issuance of 60,000 shares.
- October 1: 30,000 shares issued for cash.

What is Oregon's weighted average number of shares outstanding?

(A) 197,500.

(B) 167,500.

(C) 250,000.

130. Which of the following statements about a firm with convertible preferred stock outstanding is most accurate?

(A) If diluted and basic EPS are equal, the firm must report both basic and diluted EPS.

(B) Diluted EPS is calculated with net income minus preferred dividends in the numerator.

(C) If diluted EPS is less than basic EPS then the convertible preferred is said to be antidilutive.