

FA Module 7: Financial analysis techniques – homework assignment

(The attached PDF file has better formatting.)

(Solve both Part 1 and Part 2 of this homework assignment.)

Homework assignment Part 1: Diluted EPS for convertible preferred shares

In 20X2, a firm has net income of 200. Its capital structure consists of

- 100 common shares outstanding
- 20 convertible preferred shares outstanding, convertible into 3 common shares each

In 20X2, the firm pays dividends of 2.50 per common share and 6 per convertible preferred share.

- A. What is the firm's net income available to common shareholders for 20X2?
- B. What is the firm's earnings per share for 20X2?
- C. What is the firm's diluted earnings per share for 20X2?

Homework assignment Part 2: Diluted EPS for convertible debt

In 20X2, the corporate tax rate is 20% and a firm has net income of 300. Its capital structure consists of

- 100 common shares outstanding
- 900 (face value) of 6% convertible bonds, convertible into a total of 30 common shares

In 20X2, the firm pays dividends of 3.50 per common share.

- A. What is the firm's net income available to common shareholders for 20X2?
- B. What is the firm's earnings per share for 20X2?
- C. What is the firm's dividend payout ratio?
- D. What is the firm's dividend retention rate?
- E. What would net income be if the convertible debt had been converted at the beginning of the year?
- F. What is the firm's diluted earnings per share for 20X2?

Check your solutions with the practice problems on diluted EPS on the discussion forum. The figures differ, but the formulas are the same.