

FA Module 8: Earnings per share and diluted earnings per share (overview 3<sup>rd</sup> edition)

(The attached PDF file has better formatting.)

(Readings from the third 3<sup>rd</sup> edition of the Robinson text.)

Readings:

- ! chapter 3, Income statement §6 on earnings per share
- ! chapter 7 Financial analysis techniques §5 equity analysis, *excluding*
  - " sub-section 5.2 (industry-specific ratios)
  - " sub-section 5.3 (research on ratios in equity analysis)

Section 5 on equity analysis presents various ratios related to common shares. The final exam tests basic EPS (earnings per share) and diluted EPS. Know how to form diluted EPS for convertible securities (bonds and preferred stocks) and stock options. Issue of new shares, repurchase of shares, and stock dividends may affect both basic and diluted EPS.

Financial analysts form ratios per share, since shares are traded on stock markets. Most corporate actuaries deal with ratios to equity or to assets.

This module assumes you are familiar with convertible debt, convertible preferred shares, and executive stock options. A firm's earnings per share depends on the actions of lenders owning convertible debt, investors owning convertible preferred shares, and executives exercising stock options.