(c) On October 1, 2014, 13,000 shares of preferred stock were converted to 71,500 shares of common stock (5.5 shares common for each share of preferred). The preferred stock was issued at $100 par in 2010.
(d) On December 1, 2014, 25% of the convertible bonds were converted (41.8 shares of common for each bond converted). The bonds were issued at par in 2013.
(e) On December 31, 2014, Kishkumen declared and paid a $7-per-share dividend on outstanding preferred stock. Income for the year was $2,300,000.
(f) Stock options (issued and unexercised) to purchase 70,000 shares of common stock at $30 per share were outstanding at the beginning of 2014. Average market price for 2014 was $46.36. The number of shares was adjusted to 77,000 and the exercise price was adjusted to $27.27 in response to the 10% stock dividend.
(g) Stock warrants to purchase 50,000 shares of common stock at $45 per share were initially attached to the preferred stock. This was adjusted to 55,000 shares at $40.91 per share in response to the 10% stock dividend. The warrants expire on December 31, 2018, and were outstanding at December 31, 2014.
(h) The effective tax rate was 30% for both years.
(i) On February 1, 2015, before the 2014 financial statements were issued, Kishkumen split its common stock 2 for 1.

Instructions: For the year ended December 31, 2014, compute basic and diluted EPS.

CASES

Discussion Case 18-47

But Why Is EPS Different if Income Is the Same?

Fredrica Brown has $200,000 that she plans to invest in growth stocks. She has narrowed her choices to two companies in the same industry, White Inc. and Adam Inc. Each company has a documented history of growth and an established, strong position within the industry. Last year, each company reported net income of $10 million and a return on owners' investment of 17%; however, White reported EPS of $1.32, and Adam reported EPS of $2.75.

Fredrica requests that you explain why the EPS differs when other measures of activity and profitability are similar. What factors contribute to and limit the comparability of these data?

Discussion Case 18-48

But Let's Maintain Earnings per Share

On January 1, 2011, Farnsworth Company had 1,000,000 shares of common stock and 100,000 shares of $8 cumulative preferred stock issued and outstanding. A principal goal of Farnsworth's management is to maintain or increase EPS.

On January 1, 2012, Farnsworth Company retired 50,000 shares of the preferred stock with excess cash and additional funds provided from the sale of a subsidiary.

At the beginning of 2013, the company borrowed $5,000,000 at 10% and used the proceeds to retire 200,000 shares of common stock. Operating income, before interest and income taxes (income tax rate is 30%), is as follows:

	2013	2012	2011
Operating income	$6,500,000	$7,000,000	$7,500,000

Did Farnsworth Company maintain its EPS even though income declined? What was the impact of the preferred and common stock transactions on EPS?