

FA 4.1

E15-6

Preferred

Common

a)

2010 125,000

2011 125,000

2012 125,000

Up to 3

Bring to 4

180,000

$$\frac{\$1 \times 60,000}{1,800,000} = 3.3\%$$

$$3.3\% \times 750,000$$

25,000

400,000

60,000

240,000

b) RE

945,000

$$15\% \times 60,000 \times 105$$

Share Capital

945,000

c)

Common Shares 315,000

$$\frac{1,800,000}{60,000} \times 105$$

Contributed Surplus 787,500

Cash

1,102,500

E15-8

	Total	Preferred	Common
a)	95000	21000	74000
b)	95000	34% 63000	32000
c)	95000	Arrows 42000	
		7% 21000	280k * 7% = 19600
		Excess 6414	5986

$$\frac{\text{Excess } 12400}{(3000 + 100) + 280.000} = 2.1\%$$

$$2.1\% \times 300.000 = 6414$$

$$2.1\% \times 280.000 = 5986$$

E 15-11

a) 1 Memo only

2 $9M \times 143 = 1287000$

RE 1287000

Share Capital 1287000

b)

A/c

Split affects number of shares

Stock DE moves equity from Retained earnings to perm capital

Sec MKt

- essentially both achieve the same result + help to manage share prices

E 15-14

1. DE pay - pref 16,000
 2000×8
 DE pay - common 75,000
 25000×3
 Cash 91,000

2. Share Cap 14,800
 $\frac{100,000}{25,000} \times 3700$
 Contributed Surplus 114,700
 Cash 129,500

3. Cash 105,000
 Pref Shares 105,000

4. $\$45 \times 10\% (25,000 - 3700)$
 RE 9,5850
 Common Stock DE Dist 9,5850

5. Common Stock DE Dist 9,5850
 Common Shares 9,5850

6. RE 7,0860
 DE Pay pref 24,000
 DE Pay common
 $(25,000 - 3700 + 2130) \times 2$ 46,860

E 17-1

a)

$+ 580,000 \times \frac{12}{12} \times 1.10 \times 3$	1914000
$+ 180,000 \times \frac{11}{12} \times 1.10 \times 3$	544500
Stock DE 10% \uparrow	
$- 200,000 \times \frac{8}{12} \times 3$	(400,000)
3:1 Stock Split \uparrow	
$60,000 \times \frac{3}{12}$	$= \frac{15000}{2073500}$

b)

$$\frac{3,456,000 - 0}{2,073,500} = 1.67$$

c)

$$\frac{3,456,000 - 900,000}{2,073,500} = 1.23$$

d)

EPS before D.O	1.88
EPS D.O	$\frac{432,000}{2,073,500} = (.21)$
EPS include D.O	<u>1.67</u>

e) Earnings is a continuous process. It must reflect an adjustment for change in o/s shares

E17-3

Wtd avg common

$$650,000 \times \frac{12}{12} \times 2 = 1,300,000$$

$$100,000 \times \frac{8}{12} \times 2 = 133,333$$

$$-150,000 \times \frac{4}{12} \times 2 \quad (100,000)$$

$$2:1 \text{ split} \quad \underline{\quad} \quad \underline{1,333,333}$$

$$\frac{5,500,000 - (8\% \times 50,000 \times 100)}{1,333,333} = 3.83$$

b) No Δ - retroactive application
to the 2012 calculation

E 17-4

EPS before D.O

$$\frac{30,000,000 - 540,000}{12,250,000} = 2.40$$

Wtd avg shares

$$11,500,000 \times \frac{12}{12}$$

$$= 11,500,000$$

$$\frac{1,000,000 \times \frac{9}{12}}{12,250,000}$$

$$\frac{750,000}{12,250,000}$$

$$\text{EPS} - \text{D.O} = \frac{1,740,000}{12,250,000} = (0.14)$$

$$\text{EPS After D.O} = 2.26$$

E17-10

Beg of 2012	$800,000 \times \frac{12}{12}$	800,000
	$400,000 \times \frac{9}{12}$	<u>300,000</u>
		1,100,000

Basic EPS

$$\frac{1,540,000 - 0}{1,100,000} = 1.40$$

Potential Conversions

Bonds

Bonds Pay	497,837	→ LT debt
Conversion privilege	102,163	→ S/lt equity

Interest Exp $497,837 \times 10\% \times \frac{6}{12}$
 $= 24,892$

After tax $24,892 (1 - 40\%)$
 $14,935$

Add Shares

$$\frac{600,000}{1,000} \times 40 = 24,000 \times \frac{6}{12} = 12,000$$

$$\frac{14,935}{12,000} = 1.24$$

	\$	Shares	EPS
Basic	1,540,000	1,100,000	1.40
Bonds	<u>14,935</u>	<u>12,000</u>	
	1,554,935	1,112,000	1.40

E 17-11

a) Basic $\frac{7,500,000}{2,000,000} = 3.75$

b) Conv Bonds
Int Exp

Normally there would be a calculation as in E 17-10
Told to ignore requirement to separately record financial instrument

Int exp
Calculator
10n
7.2886
280000 put
4,000,000 FV
CPT PV
2nd amort
P1=1 P2=1

OR
 $4,000,000 \times .98 = 3,920,000$
 $\times 7.2886\%$
285713
 \times
After tax (1-35%)
 $= 185714$

Add Shares
 $\frac{4,000,000}{1.000} \times 18 = 72000$

Indor $\frac{185714}{72000} = 2.58$

Basic	$\frac{7,500,000}{1,857,14}$	Shares $\frac{2,000,000}{72,000}$	EPS $\frac{3.75}{3.71}$
	<u>7685714</u>	<u>2072000</u>	

b) Numerator in basic EPS would be reduced by pret dividend (no adjust for tax)

c) Diluted EPS is a what if calculation that attempts to measure the impact of convertible securities on existing S/H

The question is a little ill conceived as in a loss year diluted EPS = Basic EPS

E17-17

c) MKT price 23
exercise price 10
Dilutive

$$b) \frac{480,000}{100,000} = 4.80$$

	\$	Shares	EPS
c) Bas	480,000	100,000	4.80
Warrants	0	+ 18,000	
		<u> </u>	
	480,000	- 7826	
		<u>110174</u>	4.36

$$\frac{18,000 \times 10}{23} = 7826$$

