

Ralph's EPS

Ralph, an analyst, is exploring the shareholders' equity transactions and their implications for earnings per share for Composite Equity Corporation.

COMPOSITE EQUITY CORPORATION
Statements of Shareholders' Equity
For the Years Ended Dec. 31, x6, x7 and x8
(\$ in millions, except per share amounts)

	Preferred stock \$10 par	Common stock \$1 par	Additional paid-in capital	Receivable from share purchase contract	Retained earnings	Total shareholders' equity
Balance at January 1, x6		55	495		1,878	2,428
Sale of preferred shares, 4/1	10		470	(360)		120
Sale of common shares, 7/1		9	81			90
Cash dividend, preferred					(1)	(1)
Cash dividend, common					(16)	(16)
Net income					290	290
Balance at December 31, x6	10	64	1,046	(360)	2,151	2,911
Received balance from share purchase contract				360		360
Retirement of common shares, 4/1		(4)	(36)		(20)	(60)
Cash dividend, preferred					(1)	(1)
Cash dividend, common					(20)	(20)
3-for-2 split effected in the form of a dividend, 8/12		30	(30)			
Net income					380	380
Balance at December 31, x7	10	90	980		2,490	3,570
10% Common stock dividend, 5/1		9	90	0	(99)	
Sale of common shares, 9/1		3	31			34
Cash dividend, preferred					(1)	(1)
Cash dividend, common					(22)	(22)
Net income					412	412
Balance at December 31, x8	10	102	1,101	0	2,780	3,993

Required:

1. Infer from the statements the transactions that affected Composite Equity Corporation's shareholders' equity. Prepare a directed graph of these equity transactions.

2. The income statement reports earnings per share for the years ended December 31, x6, x7, and x8 as follows

	For year ended December 31, x6	For year ended December 31, x7	For year ended December 31, x8
Basic EPS	\$2.94*	\$3.77*	\$4.11
Diluted EPS	\$2.10*	\$2.48*	\$2.70

*restated for stock dividends and stock splits

The following is extracted from footnotes to the December 31, x8 financial statements. At issuance, the preferred stock was convertible to 32 (million) common shares. January 2, x8, Locke issued \$500 (million), 8% convertible bonds at par. At issuance, the bonds were convertible to 5 (million) common shares and the x8 income tax rate is 40%. Both convertible securities include provisions that maintain their proportionate ownership interest in the event of stock dividends or stock splits subsequent to their issue.

Explain the EPS disclosures for the years ended December 31, x6, x7, and x8.

Why isn't reported EPS equal to simple EPS (net income relative to the number of shares outstanding)?

Are any of the convertible securities anti-dilutive?