

Midterm Project (E16-23; E16-24; E16-25)

taxes of \$8,400 for 2017. (Assume that the tax rate is 40%.) Throughout 2017, 2,000 shares of common stock were outstanding; none of the bonds was converted or redeemed.

Instructions

- (a) Compute diluted earnings per share for 2017.
- (b) Assume the same facts as those assumed for part (a), except that the 60 bonds were issued on September 1, 2017 (rather than in 2016), and none have been converted or redeemed. Compute diluted earnings per share for 2017.
- (c) Assume the same facts as assumed for part (a), except that 20 of the 60 bonds were actually converted on July 1, 2017. Compute diluted earnings per share for 2017.

E16-23 (L05) (EPS with Convertible Bonds) On June 1, 2015, Andre Company and Agassi Company merged to form Lancaster Inc. A total of 800,000 shares were issued to complete the merger. The new corporation reports on a calendar-year basis. On April 1, 2017, the company issued an additional 400,000 shares of stock for cash. All 1,200,000 shares were outstanding on December 31, 2017.

Lancaster Inc. also issued \$600,000 of 20-year, 8% convertible bonds at par on July 1, 2017. Each \$1,000 bond converts to 40 shares of common at any interest date. None of the bonds have been converted to date.

Lancaster Inc. is preparing its annual report for the fiscal year ending December 31, 2017. The annual report will show earnings per share figures based upon a reported after-tax net income of \$1,540,000. (The tax rate is 40%.)

Instructions

Determine the following for 2017.

- (a) The number of shares to be used for calculating:
 - (1) Basic earnings per share.
 - (2) Diluted earnings per share.
- (b) The earnings figures to be used for calculating:
 - (1) Basic earnings per share.
 - (2) Diluted earnings per share.

(CMA adapted)

E16-24 (L05) (EPS with Convertible Bonds and Preferred Stock) The Simon Corporation issued 10-year, \$5,000,000 par, 7% callable convertible subordinated debentures on January 2, 2017. The bonds have a par value of \$1,000, with interest payable annually. The current conversion ratio is 14:1, and in 2 years it will increase to 18:1. At the date of issue, the bonds were sold at 98. Bond discount is amortized on a straight-line basis. Simon's effective tax was 35%. Net income in 2017 was \$9,500,000, and the company had 2,000,000 shares outstanding during the entire year.

Instructions

- (a) Prepare a schedule to compute both basic and diluted earnings per share.
- (b) Discuss how the schedule would differ if the security was convertible preferred stock.

E16-25 (L05) (EPS with Convertible Bonds and Preferred Stock) On January 1, 2017, Crocker Company issued 10-year, \$2,000,000 face value, 6% bonds, at par. Each \$1,000 bond is convertible into 15 shares of Crocker common stock. Crocker's net income in 2017 was \$300,000, and its tax rate was 40%. The company had 100,000 shares of common stock outstanding throughout 2017. None of the bonds were converted in 2017.

Instructions

- (a) Compute diluted earnings per share for 2017.
- (b) Compute diluted earnings per share for 2017, assuming the same facts as above, except that \$1,000,000 of 6% convertible preferred stock was issued instead of the bonds. Each \$100 preferred share is convertible into 5 shares of Crocker common stock.

E16-26 (L05) (EPS with Options, Various Situations) Venezuela Company's net income for 2017 is \$50,000. The only potentially dilutive securities outstanding were 1,000 options issued during 2016, each exercisable for one share at \$6. None has been exercised and 10,000 shares of common were outstanding during 2017. The average market price of Venezuela's stock during 2017 was \$20.

Instructions

- (a) Compute diluted earnings per share. (Round to nearest cent.)
- (b) Assume the same facts as those assumed for part (a), except that the 1,000 options were issued on October 1, 2017 (rather than in 2016). The average market price during the last 3 months of 2017 was \$20.

E16-27 (L05) (EPS with Contingent Issuance Agreement) Winsor Inc. recently purchased Holiday Corp., a large midwestern home painting corporation. One of the terms of the merger was that if Holiday's income for 2017 was \$110,000 or more, 10,000 additional shares would be issued to Holiday's stockholders in 2018. Holiday's income for 2016 was \$120,000.