

## ILLUSTRATION 17-1

### CONVERTIBLE SECURITIES

#### CONVERTIBLE BONDS

Issued ten, 8%, \$1,000 par value bonds at 110. Each bond is convertible into 100 shares of \$5 par value common.

Entry at date of issue:

Cash.....	11,000	
Bonds Payable.....		10,000
Premium on Bonds Payable.....		1,000

Ten bonds were converted into 1,000 shares of \$5 par value common stock when the carrying amount of the bonds was \$10,500.

Entry at date of conversion (book value approach):

Bonds Payable.....	10,000	
Premium on Bonds Payable.....	500	
Common Stock.....		5,000
Paid-in Capital in Excess of Par.....		5,500

Ten bonds were converted into 1,000 shares of \$5 per value common stock when the carrying amount the bonds was \$10,500 and the market price of the stock was \$12 a share.

Entry at date of conversion (market value approach):

Bonds Payable.....	10,000	
Premium on Bonds Payable.....	500	
Loss on Redemption of Bonds Payable.....	1,500	
Common Stock.....		5,000
Paid in Capital in Excess of Par.....		7,000

## ILLUSTRATION 17-2

### CONVERTIBLE SECURITIES

#### CONVERTIBLE PREFERRED STOCK

Issued 100 shares of \$100 par value, 6%, convertible preferred stock at \$110 per share. Each share of preferred stock is convertible into 10 shares of \$5 par value common stock.

Entry at date of issue:

Cash.....	11,000	
Preferred Stock.....		10,000
Premium on Preferred Stock.....		1,000

One hundred shares of preferred stock were converted into 1,000 shares of \$5 par value common stock.

Entry at date of conversion:

Preferred Stock.....	10,000	
Premium on Preferred Stock.....	1,000	
Common Stock.....		5,000
Paid-in Capital in Excess of Par.....		6,000

## ILLUSTRATION 17-3

### STOCK WARRANTS ISSUED WITH DEBT SECURITIES

Assume 1,000 bonds with warrants attached were sold at par (\$1,000). Each warrant allows the holder to buy one share of common stock.

- A. **Proportional method:** The bonds sold for 98 without the warrants soon after they were issued and the warrants had a market value of \$25.

Fair market value of bonds without warrants:

(\$1,000,000 × .98) \$980,000

Fair market value of warrants (1,000 × \$25) 25,000

Aggregate fair market value \$1,005,000

Allocated to bonds:  $\frac{\$980,000}{\$1,005,000} \times \$1,000,000 = \$75,124$

Allocated to warrants:  $\frac{\$980,000}{\$1,005,000} \times \$1,000,000 = 24,876$

Total allocation \$1,005,000

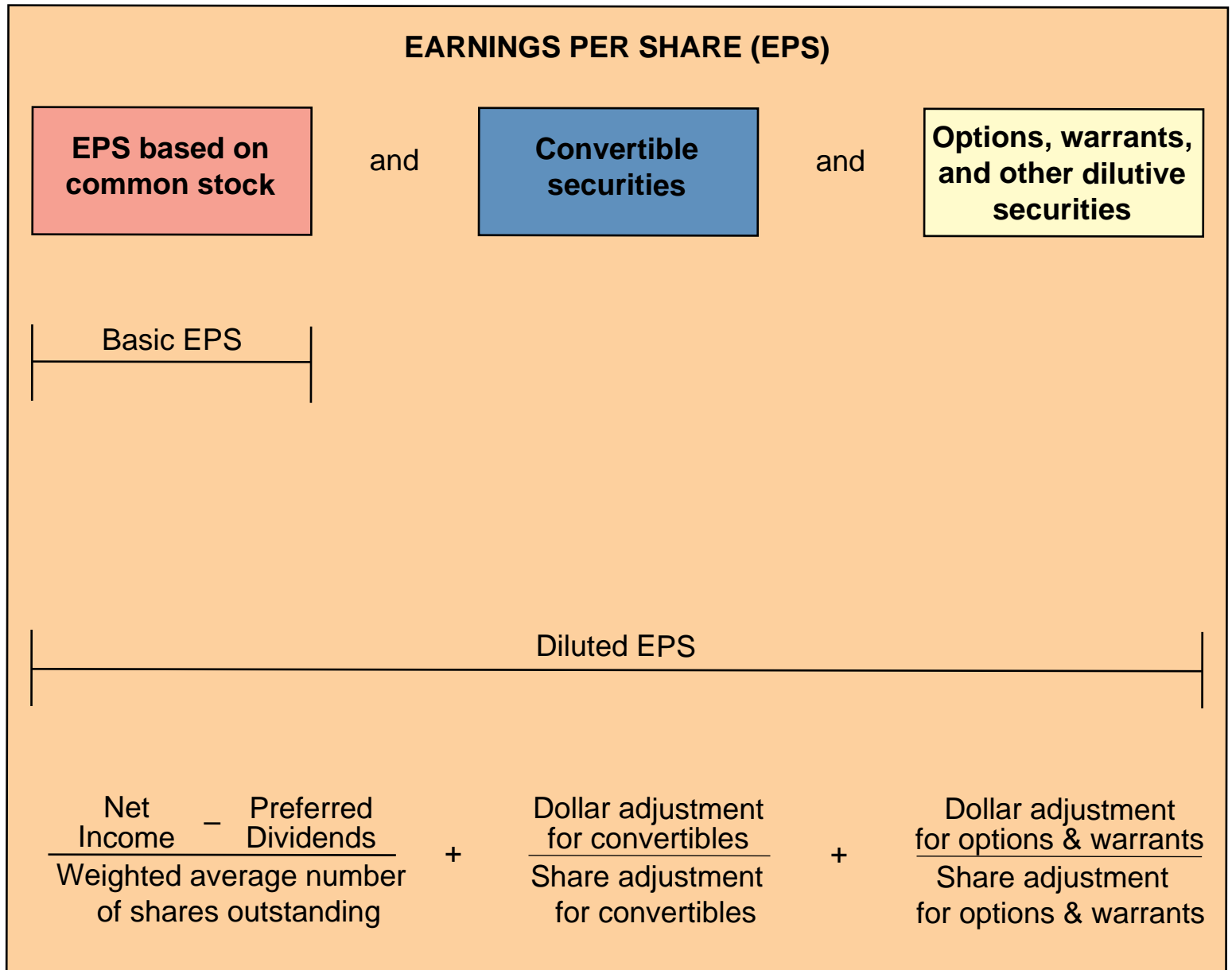
- B. **Incremental Method:** The market price of the bonds without the warrants was \$970,000, but the market value of the warrants was not determinable.

Lump sum receipt \$1,000,000

Allocated to the bonds – 970,000

Balance allocated to the warrants \$ 30,000

### ILLUSTRATION 17-4 EARNINGS PER SHARE OVERVIEW



# ILLUSTRATION 17-5

## WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING COMPUTATION

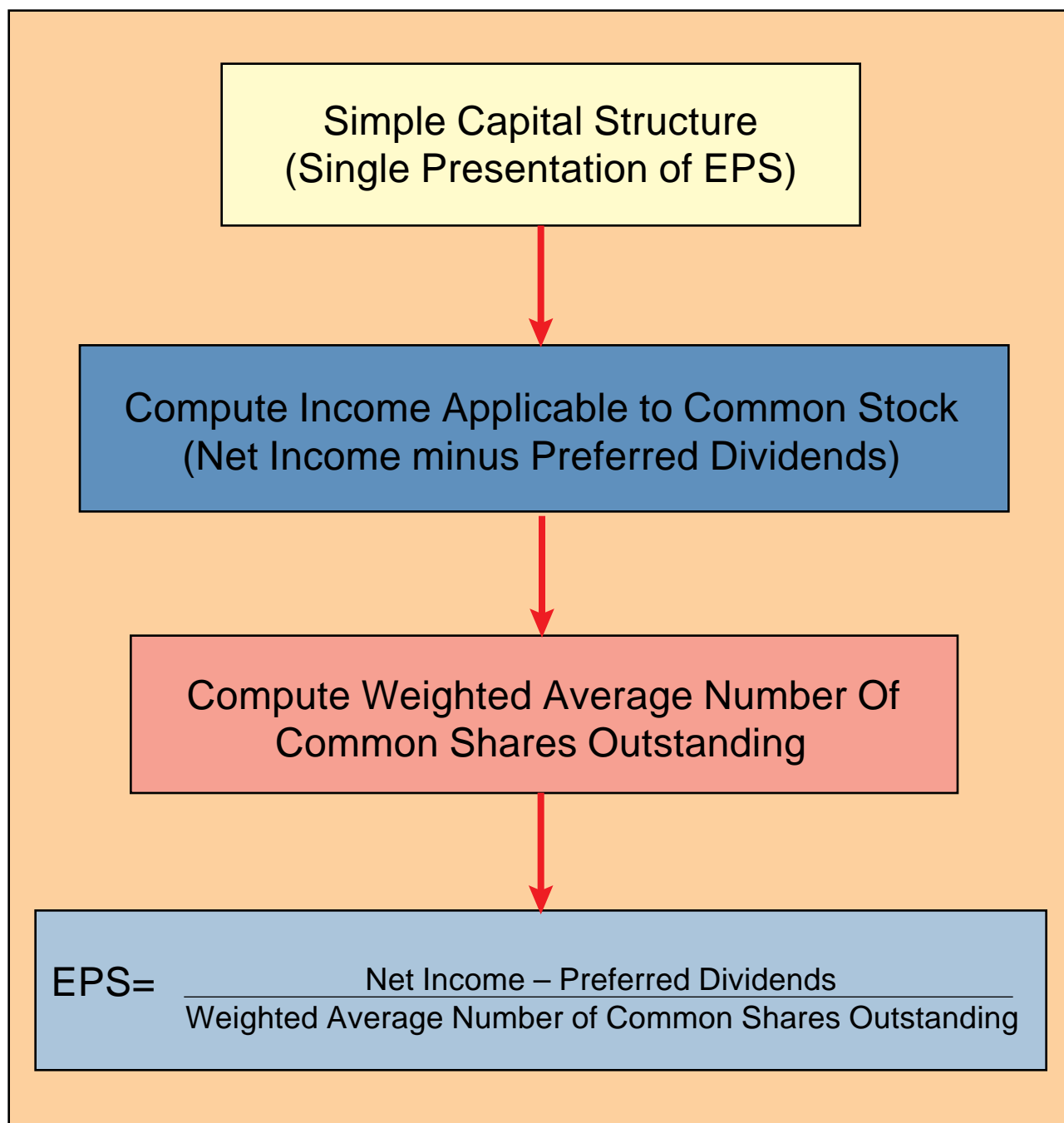
Common Share Activity for the Year		Shares
Jan. 1	Beginning balance	100,000
Apr. 1	Issued 20,000 shares	<u>20,000</u>
		120,000
June 1	Purchased 12,000 treasury shares	<u>12,000</u>
		108,000
Oct. 1	20% stock dividend	<u>21,600</u>
		129,600
Nov. 1	Sold 9,000 shares treasury stock	<u>9,000</u>
		138,600
Dec. 1	2:1 stock split	<u>138,600</u>
Dec. 31	Ending balance	<u><u>277,200</u></u>

### Computation of Weighted Average Number of Shares Outstanding

Dates	Fraction Of Year	Shares Outstanding	Stock Dividend	Stock Split	Weighted Average Shares Outstanding
Jan.1–Apr. 1	3/12	100,000	= 25,000	1.20	2/1 = 60,000
Apr. 1–June 1	2/12	120,000	= 20,000	1.20	2/1 = 48,000
June 1–Oct. 1	4/12	108,000	= 36,000	1.20	2/1 = 86,400
Oct.1–Nov. 1	1/12	129,600		2/1	= 21,600
Nov. 1–Dec. 1	1/12	138,600		2/1	= 23,100
Dec. 1–Dec. 31	1/12	277,200			= 23,100
					<u><u>262,200</u></u>

## ILLUSTRATION 17-6

### CALCULATING BASIC EPS, SIMPLE CAPITAL STRUCTURE



## ILLUSTRATION 17-7

### CALCULATING EPS WITH A COMPLEX CAPITAL STRUCTURE

