Financial Reporting Insights

EARNINGS PER SHARE PRIMER

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OVERVIEW

Earnings per share (EPS) is a measurement of an entity's profitability on a per-share basis and is one of the leading metrics used by investors. FASB Accounting Standards Codification (ASC) Topic 260, *Earnings Per Share*, addresses the calculation, presentation, and disclosure requirements for EPS by entities that either have issued common stock that trades in a public market or made a filing, or are in the process of filing, with a regulatory agency in preparation for a sale of common stock in a public market. The two required measures of EPS are basic EPS and diluted EPS. The objective of basic EPS is to measure the performance of an entity over the reporting period, whereas the objective of diluted EPS is to measure the performance of an entity over the reporting period while giving effect to all dilutive potential common shares outstanding during the period.

This white paper highlights the scope of the EPS requirements, the concepts of basic and diluted EPS, and the presentation and disclosure requirements for EPS. For further guidance on identifying participating and dilutive securities, as well as the methods for calculating EPS, refer to ASC 260.

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1. Introduction

Earnings per share (EPS) is a measurement of an entity's profitability on a per-share basis and is one of the leading metrics used by investors. The primary source of authoritative guidance under U.S. generally accepted accounting principles (GAAP) on EPS is ASC 260, *Earnings Per Share*, which addresses the calculation, presentation and disclosure requirements for EPS. Under ASC 260, presentation of EPS is required by all entities that either have issued common stock that trades in a public market or made a filing, or are in the process of filing, with a regulatory agency in preparation for a sale of common stock in a public market. The two metrics of EPS are:

Basic EPS The objective of basic EPS is to measure the performance of an entity over the reporting period

- Presented when an entity has common shares outstanding
- Calculated as net income for the period divided by the weighted-average number of common shares outstanding

Diluted EPS The objective of diluted EPS is to measure the performance of an entity over the reporting period while giving effect to all dilutive potential common shares outstanding during the period

- Presented when an entity has both common shares and dilutive potential common shares outstanding
- Calculated as net income for the period divided by the weighted-average number of common shares outstanding and dilutive potential common stock

This white paper highlights the scope of the EPS requirements, the concepts of basic and diluted EPS, and the presentation and disclosure requirements for EPS. This white paper is intended to provide a high-level summary of EPS concepts and requirements. Accordingly, it does not provide all the guidance necessary to perform the basic and diluted EPS calculations. For further guidance on identifying participating and dilutive securities, as well as the methods for calculating EPS, refer to ASC 260.

1.1 Scope

ASC 260 requires all entities that have issued common stock or potential common stock (e.g., securities such as options, warrants, convertible securities, or contingent stock agreements) present EPS if those securities trade in a public market. A public market can be either on a stock exchange (either domestic or foreign) or in the over-the-counter market, including securities quoted only locally or regionally. ASC 260 also applies to entities that have made a filing or are in the process of filing with a regulatory agency in preparation for the sale of those securities in a public market. The Master Glossary of the ASC defines common stock as "a stock that is subordinate to all other stock of the issuer." ASC 260 applies to an equity interest meeting the definition of common stock regardless of whether such stock is labeled as common stock.

ASC 260 does not apply to:

- An entity that has only publicly-traded debt securities, unless those securities are, or may be, converted into common stock
- Investment companies within the scope of ASC 946
- Financial statements of wholly owned subsidiaries; however, ASC 260 would apply to the separately issued financial statements of a subsidiary that has publicly-traded common stock held by noncontrolling interests

Any entity can voluntarily choose to present EPS. If an entity elects to voluntarily present EPS, that entity must follow the provisions of ASC 260.

The following table addresses different situations and securities and considers whether presentation of EPS under ASC 260 is required.

Description	Yes, presentation of EPS is required under ASC 260	No, presentation is not required (can be voluntarily provided)	Comments
Common stock traded on the NASDAQ or NYSE	X		Common stock would be considered publicly traded regardless of trading volume.
Common stock traded on OTC Pink Market	X		The OTC Pink Market is considered a public market because it is generally accessible by the public and publishes underlying financial information.
Rule 144A securities		X	Securities that can only be purchased by certain investors, such as 144A securities, are not considered to be traded in a public market.
Entity is in the process of filing with a regulatory agency in preparation for sale of common stock in a public market	X		To be considered “in process,” the entity needs to be actively taking steps to file, including drafting a prospectus or preparing financial statements for inclusion in a filing.
Entity is an Investment Company within the scope of ASC 946		X	Investment Companies are excluded from the scope of ASC 260 pursuant to paragraph 260-10-15-3.
Publicly traded debt, convertible into common stock	X		The debt is traded in a public market and the debt securities are convertible to common stock.
Publicly traded debt, not convertible into common stock		X	While the debt is publicly traded, unless there is common stock or potential common stock that is publicly traded, EPS is not required.

2. Basic EPS

ASC 260-10-45-10

Basic EPS shall be computed by dividing **income available to common stockholders** (the numerator) by the **weighted-average number of common shares outstanding** (the denominator) during the period. Shares issued during the period and shares reacquired during the period shall be weighted for the portion of the period that they were outstanding. See Example 1 (paragraph 260-10-55-38) for an illustration of this guidance.

An entity's EPS is equal to income for the period (such as a quarter or a year) divided by the weighted-average number of common shares outstanding for the same period. Basic EPS is a simpler calculation than diluted EPS as it only includes outstanding shares of common stock in the calculation.

$$\text{Basic EPS} = \frac{\text{Income Available to Common Stockholders (Numerator)}}{\text{Weighted-Average Number of Common Shares Outstanding (Denominator)}}$$

2.1 The Numerator – Income available to common stockholders

The numerator in the calculation of basic EPS is income available to common stockholders.

ASC Master Glossary

Income Available to Common Stockholders

Income (or loss) from continuing operations or net income (or net loss) adjusted for preferred stock dividends.

ASC 260-10-45-11

Income available to common stockholders shall be computed by deducting both the dividends declared in the period on **preferred stock** (whether or not paid) and the dividends accumulated for the period on cumulative preferred stock (whether or not earned) from income from continuing operations (if that amount appears in the income statement) and also from net income. If there is a loss from continuing operations or a net loss, the amount of the loss shall be increased by those preferred dividends. An adjustment to net income or loss for preferred stock dividends is required for all preferred stock dividends, regardless of the form of payment. Preferred dividends that are cumulative only if earned shall be deducted only to the extent that they are earned.

ASC 260-10-45-11A

For purposes of computing EPS in **consolidated financial statements** (both basic and diluted), if one or more less-than-wholly-owned **subsidiaries** are included in the **consolidated group**, income from continuing operations and net income shall exclude the income attributable to the noncontrolling interest in subsidiaries. Example 7 (see paragraph 260-10-55-64) provides an example of calculating EPS when there is a **noncontrolling interest** in a subsidiary in the consolidated group.

ASC 260-10-45-12

Preferred stock dividends that an issuer has paid or intends to pay in its own common shares shall be deducted from net income (or added to the amount of a net loss) in computing income available to common stockholders. In certain cases, the dividends may be payable in common

> shares or cash at the issuer's option. The adjustment to net income (or net loss) for preferred stock dividends payable in common stock in computing income available to common stockholders is consistent with the treatment of common stock issued for goods or services.

Income available to common stockholders is based on income (or loss) adjusted for preferred stock dividends. There may also be additional adjustments required. Below is a list of some of the common items that may result in an adjustment to income available to common stockholders:

Preferred stock

- Dividends declared in the period on preferred stock (whether or not paid)
- Dividends accumulated during the period on cumulative preferred stock (whether or not earned) unless the preferred dividends are cumulative only if earned (in which case they are included in the adjustment only to the extent earned)
- Periodic amortization of the discount resulting from the issuance of increasing rate preferred stock

Noncontrolling interests

- Income attributable to the noncontrolling interest in subsidiaries

Redeemable securities

- Adjustments to the redemption amount for redeemable preferred stock
- When a class of common stock is redeemable at other than fair value, increases or decreases in the carrying amount of the redeemable security using a method akin to the two-class method (see Section 2.1.1)

Participating securities

- Dividends on participating preferred stock
- Undistributed net income attributable to participating preferred stock
- Dividends paid on common stock options
- Undistributed net income allocated to other participating securities (see Section 2.1.1)

Modifications of preferred stock

- A modification or an exchange of preferred stock or a freestanding equity-classified written call option (such as a warrant) if treated as a deemed dividend
- Certain modifications of common stock if resulting in a deemed dividend

Redemptions and conversions of securities

- Certain common stock repurchases in excess of fair value
- Induced conversions of preferred stock
- Redemptions or extinguishments of preferred stock at amounts other than the carrying amount

Other

- Deemed dividends resulting from the triggering of a down round feature (i.e., a reduction in the exercise or conversion price upon a triggering event) in equity-classified freestanding financial instruments and equity-classified convertible preferred stock
- Discontinued operations

Income available to common shareholders is reduced by the amount of dividends on preferred stock, including undeclared or unpaid dividends if cumulative, and increases in the carrying amounts of redeemable preferred stock or increasing rate preferred stock. For additional guidance on determining the amount of the adjustments to income available to common shareholders, refer to ASC 260, including ASC 260-10-S55, which references guidance provided by the SEC staff on calculating the effect on EPS for various events and transactions, including:

- Preferred stock dividends and accretion of carrying amount of preferred stock
- Redemption or induced conversion of preferred stock or a portion of a class of preferred stock
- Subsequent increases or decreases in the carrying amount of redeemable securities
- Nominal issuances and initial public offerings.

The SEC expects income available to common stockholders be reported on the face of the income statement when it is materially different on a quantitative basis from reported net income or loss (per ASC 220-10-S99-5, generally if the amount differs from net income or loss by more than 10%) or when it is indicative of significant trends or other qualitative considerations.

2.1.1 Participating securities and the two-class method

ASC Master Glossary

Participating Security

A **security** that may participate in undistributed earnings with common stock, whether that participation is conditioned upon the occurrence of a specified event or not. The form of such participation does not have to be a dividend—that is, any form of participation in undistributed earnings would constitute participation by that security, regardless of whether the payment to the security holder was referred to as a dividend.

A participating security is a security that may participate in undistributed earnings along with common stock. It does not matter if that participation is conditioned upon the occurrence of a specified event or not. Also, the form of participation does not have to be a dividend; any form of participation in undistributed earnings that would otherwise be available to common shareholders would constitute participation by that security. The following securities, for example, are considered to be participating securities:

- Securities that may participate in dividends with common stock according to a predetermined formula (the right to dividends must be based on objective criteria, not an arbitrary amount at the discretion of the board)
- Potential common shares, (i.e., securities or other contracts that may entitle their holders to obtain common stock such as options, warrants, forwards, or other contracts to issue common stock), if they meet the definition of a participating security in their current form (that is, prior to exercise or settlement), such as by participating in dividends if declared
- Debt instruments that receive a dividend based on a formula of earnings

It is important to understand the definition of a participating security and to be able to recognize such a security, as the existence of a participating security affects the calculation of EPS. Entities must exclude from income available to common stockholders any claim on undistributed earnings from a participating security—irrespective of whether the securities are convertible, non-convertible or potential common stock securities—in basic earnings per share using the two-class method. The two-class method is an earnings allocation formula as if all earnings for the period were distributed in accordance with the terms of the participating securities. Only the earnings that would be distributed to the common shareholders are presented in basic and diluted earnings per share. There is no requirement for the presentation of basic and diluted earnings per share for securities other than common stock.

Once it is determined that participating securities exist, entities should follow the guidance on participating securities and the two-class method in ASC 260-10-45-59A through 45-70, and reference ASC 260-10-55-71 for an illustration of how to include participating securities in the computation of basic earnings per share using the two-class method.

2.2 The Denominator – weighted-average number of common shares

The denominator in the calculation of basic EPS is the weighted-average number of common shares.

ASC Master Glossary

Weighted-Average Number of Common Shares Outstanding

The number of shares determined by relating the portion of time within a reporting period that common shares have been outstanding to the total time in that period. In computing diluted EPS, equivalent common shares are considered for all dilutive potential common shares.

ASC 260-10-45-12C

Contractual agreements (usually associated with purchase business combinations) sometimes provide for the issuance of additional common shares contingent upon certain conditions being met. Consistent with the objective that basic EPS should represent a measure of the performance of an entity over a specific reporting period, **contingently issuable** shares should be included in basic EPS only when there is no circumstance under which those shares would not be issued and basic EPS should not be restated for changed circumstances.

ASC 260-10-45-13

Shares issuable for little or no cash consideration upon the satisfaction of certain conditions (contingently issuable shares) shall be considered outstanding common shares and included in the computation of basic EPS as of the date that all necessary conditions have been satisfied (in essence, when issuance of the shares is no longer contingent). Outstanding common shares that are contingently returnable (that is, subject to recall) shall be treated in the same manner as contingently issuable shares. Thus, contingently issuable shares include shares that meet any of the following criteria:

a. They will be issued in the future upon the satisfaction of specified conditions.

b. They have been placed in escrow and all or part must be returned if specified conditions are not met.

c. They have been issued but the holder must return all or part if specified conditions are not met.

ASC 260-10-55-2

The weighted-average number of shares is an arithmetical mean average of shares outstanding and assumed to be outstanding for EPS computations. The most precise average would be the sum of the shares determined on a daily basis divided by the number of days in the period. Less-precise averaging methods may be used, however, as long as they produce reasonable results. Methods that introduce artificial weighting, such as the Rule of 78 method, are not acceptable for computing a weighted-average number of shares for EPS computations.

ASC 260-10-55-3

> The number of incremental shares included in quarterly diluted EPS shall be computed using the average market prices during the three months included in the reporting period. For year-to-date diluted EPS, the number of incremental shares to be included in the denominator shall be determined by computing a year-to-date weighted average of the number of incremental shares included in each quarterly diluted EPS computation. Example 1 (see paragraph 260-10-55-38) provides an illustration of that provision.
>
> **ASC 260-10-55-3A**
>
> Computation of year-to-date diluted EPS when an entity has a year-to-date loss from continuing operations including one or more quarters with income from continuing operations and when in-the-money options or warrants were not included in one or more quarterly diluted EPS computations because there was a loss from continuing operations in those quarters is as follows. In computing year-to-date diluted EPS, year-to-date income (or loss) from continuing operations shall be the basis for determining whether or not dilutive potential common shares not included in one or more quarterly computations of diluted EPS shall be included in the year-to-date computation.
>
> **ASC 260-10-55-2**
>
> Therefore:
>
> a. When there is a year-to-date loss, potential common shares should never be included in the computation of diluted EPS, because to do so would be antidilutive.
>
> b. When there is year-to-date income, if in-the-money options or warrants were excluded from one or more quarterly diluted EPS computations because the effect was antidilutive (there was a loss from continuing operations in those periods), then those options or warrants should be included in the diluted EPS denominator (on a weighted-average basis) in the year-to-date computation as long as the effect is not antidilutive. Similarly, contingent shares that were excluded from a quarterly computation solely because there was a loss from continuing operations should be included in the year-to-date computation unless the effect is antidilutive.
>
> Example 12 (see paragraph 260-10-55-85) illustrates this guidance.

The weighted-average number of common shares is determined by relating the portion of time within a reporting period that common shares have been outstanding to the total time in that period. When computing earnings per share for an interim period, the denominator is based on the weighted-average shares outstanding during the interim period, not on an annualized weighted-average basis. Generally, year-to-date calculations are based on the sum of the individual quarterly calculations; however, in the computation of diluted EPS, there may be shares that were excluded during the quarterly EPS calculation that should be included in the year-to-date calculations. For example, in-the-money options or warrants when there is a loss in the quarterly period but there is year-to-date income. Accordingly, the sum of the four quarters' diluted EPS data will not necessarily equal the annual diluted EPS data.

Common shares outstanding includes issued common stock that are not subject to any vesting or forfeiture provisions and may include common stock issuable for little to no consideration. Shares issuable for little or no cash consideration upon the satisfaction of certain conditions are considered outstanding common shares and included in the weighted-average number of common shares used in the denominator in the computation of basic EPS commencing on the date that all necessary conditions have been satisfied (i.e., the shares are no longer contingent). This would be the case even if the shares are not yet legally issued. Outstanding common shares that are contingently returnable are treated in the same manner as contingently issuable shares and would be excluded from common shares outstanding until such time as any contingencies expire or forfeiture provisions lapse. Contingently issuable shares include shares that will be issued once specified conditions are satisfied, have been placed in escrow and must be returned if specified conditions are not met or have been issued but must be returned if specified conditions are not met.

The following table discusses select securities and their potential impact on the weighted-average shares outstanding calculation used in basic EPS:

Description	Impact on weighted-average shares outstanding
Contingent shares	Excluded until such time as contingencies are resolved or the shares are no longer returnable
Restricted stock/nonvested shares issued as share-based payments	Excluded until such time as vested or no longer forfeitable
Escrowed shares forfeitable if certain conditions are not met	Excluded until such time as contingencies are resolved or no longer forfeitable
Employee stock options	Excluded until exercised
Mandatorily convertible preferred stock	Excluded unless considered participating securities as defined in ASC 260
Mandatorily redeemable common stock	Excluded if accounted for as a liability under ASC 480

3. Diluted EPS

Like basic EPS, diluted EPS is a measure of an entity's profitability on a per-share basis. However, unlike basic EPS, the calculation of diluted EPS includes other kinds of securities that can be settled or converted into common shares, such as employee stock options, restricted stock issued as share-based payments, convertible preferred stock and convertible debt. This results in a larger number of shares (i.e., denominator) and, if net income is not affected, a lower EPS amount.

ASC Master Glossary

Diluted Earnings Per Share

The amount of earnings for the period available to each share of common stock outstanding during the reporting period and to each share that would have been outstanding assuming the issuance of common shares for all dilutive potential common shares outstanding during the reporting period.

Dilution

A reduction in EPS resulting from the assumption that convertible securities were converted, that options or warrants were exercised, or that other shares were issued upon the satisfaction of certain conditions.

Potential Common Stock

A security or other contract that may entitle its holder to obtain common stock during the reporting period or after the end of the reporting period.

> **ASC 260-10-45-16**
>
> The computation of diluted EPS is similar to the computation of basic EPS except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued.
>
> **ASC 260-10-45-17**
>
> The computation of diluted EPS shall not assume conversion, exercise, or contingent issuance of securities that would have an antidilutive effect on EPS. Shares issued on actual conversion, exercise, or satisfaction of certain conditions for which the underlying potential common shares were antidilutive shall be included in the computation as outstanding common shares from the date of conversion, exercise, or satisfaction of those conditions, respectively. In determining whether potential common shares are dilutive or antidilutive, each issue or series of issues of potential common shares shall be considered separately rather than in the aggregate.

While computed in a manner similar to basic EPS, diluted EPS may include adjustments to the numerator as well as the denominator. Diluted EPS assumes that all dilutive potential common shares (i.e., those that reduce earnings per share or increase loss per share) were outstanding common shares during the period and that net income (the numerator) was calculated on this basis.

Potential common shares are not included if their inclusion would be antidilutive (i.e., an increase in earnings per share amounts or a decrease in loss per share amounts). Shares issued on actual conversion, exercise or satisfaction of certain conditions for which the underlying potential common shares were antidilutive are included in the computation as outstanding common shares only from the date of conversion, exercise or satisfaction of those conditions, respectively. In determining whether potential common shares are dilutive or antidilutive, the antidilution sequencing guidance in ASC 260-10-55-57 through 55-59 must be applied. The potential dilutive effect on EPS is computed using either the treasury stock method, the reverse treasury stock method, or the if-converted method. Which method is used in calculating the dilutive effect on EPS will depend on the nature of the potentially dilutive security. Each of these methods and the securities to which they apply is described in ASC 260-10-45.

The following graphic represents the process for computing diluted EPS:

Calculate basic EPS

Start with the calculation of basic EPS for the period

Identify dilutive securities

Identify dilutive securities by applying the antidilution sequencing guidance in ASC 260-10-55-57 through 55-59. Based on the nature of the security, the potential dilutive effect on EPS is computed using either the treasury stock method, the reverse treasury stock method or the if-converted method.

Adjust the Numerator

Income available to common stockholders (the numerator) should be adjusted to reflect the basis used for identified dilutive securities. For example, adjustment would be required for dilutive securities classified as assets or liabilities that are assumed share-settled for purposes of calculating diluted EPS (see ASC 260-10-45-46).

Adjust the Denominator

Adjust the number of common shares to include dilutive potential common shares on a weighted average basis. Dilutive potential common shares may include securities such as stock options, warrants, convertible debt, convertible preferred stock, restricted stock and earn-out provisions.

4. Presentation and disclosure

4.1 Presentation

ASC 260-10-45-2

Entities with simple capital structures, that is, those with only **common stock** outstanding, shall present basic per-share amounts for income from continuing operations and for net income on the face of the income statement. All other entities shall present basic and diluted per-share amounts for income from continuing operations and for net income on the face of the income statement with equal prominence.

ASC 260-10-45-3

An entity that reports a discontinued operation in a period shall present basic and diluted per-share amounts for that line item either on the face of the income statement or in the notes to the financial statements.

ASC 260-10-45-4

The terms *basic EPS* and *diluted EPS* are used to identify EPS data to be presented and are not required to be captions used in the income statement. There are no explicit requirements for the terms to be used in the presentation of basic and diluted EPS; terms such as *earnings per common share* and *earnings per common share—assuming* ***dilution***, respectively, are appropriate.

ASC 260-10-45-5

Per-share amounts not required to be presented by this Subtopic that an entity chooses to disclose shall be computed in accordance with this Subtopic and disclosed only in the notes to financial statements; it shall be noted whether the per-share amounts are pretax or net of tax. (See paragraph 260-10-50-1A.)

ASC 260-10-45-6

Paragraph 230-10-45-3 prohibits reporting an amount of cash flow per share.

ASC 260-10-45-7

EPS data shall be presented for all periods for which an income statement or summary of earnings is presented. If diluted EPS data are reported for at least one period, they shall be reported for all periods presented, even if they are the same amounts as basic EPS. If basic and diluted EPS are the same amount, dual presentation can be accomplished in one line on the income statement.

Under ASC 260, entities with simple capital structures are required to present basic EPS amounts for income from continuing operations and for net income on the face of the income statement. Entities have a simple capital structure when only one class of common stock is outstanding and the entity has no outstanding securities or contracts that may entitle the holder to obtain common stock either during or after the end of the reporting period. All other entities are required to present basic and diluted EPS amounts for income from continuing operations and for net income on the face of the income statement with equal prominence. Earnings per share is to be disclosed separately on the face of the income statement for all classes of common stock. Multiple classes of common stock may be combined if the amount of earnings per share are the same for each class. If an entity does not report a discontinued operation, the only EPS amount required to be reported on the face of the income statement is for net income.

An entity that reports a discontinued operation in any period presented must present basic and, if other than a simple capital structure, diluted EPS amounts for that line item, either on the face of the income statement or in the notes to financial statements. When space permits, we recommend entities present the required EPS amounts on the face of the income statement.

Any per-share amounts not required to be presented by ASC 260 that an entity may choose to disclose must be computed in accordance with ASC 260 and disclosed only in the notes to financial statements (or elsewhere in a filing, such as in Management's Discussion and Analysis or Selected Financial Data), and the disclosure must indicate whether the per share amounts are pretax or net of tax. ASC 230, *Statement of Cash Flows*, prohibits reporting an amount of cash flow per share.

EPS data must be presented for all periods for which an income statement or summary of earnings is presented. If diluted EPS data are reported for at least one period, they must be reported for all periods presented, even if the same as basic EPS. SEC Regulation S-X requires presentation of EPS in both annual Form 10-K and their interim Form 10-Q.

4.1.1 Other presentation matters

4.1.1.1 Stock dividends and stock splits

ASC 260-10-55-12

If the number of common shares outstanding increases as a result of a stock dividend or stock split (see Subtopic 505-20) or decreases as a result of a reverse stock split, the computations of basic and diluted EPS shall be adjusted retroactively for all periods presented to reflect that change in capital structure. If changes in common stock resulting from stock dividends, stock splits, or reverse stock splits occur after the close of the period but before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25), the per-share computations for those and any prior-period financial statements presented shall be based on the new number of shares. If per-share computations reflect such changes in the number of shares, that fact shall be disclosed.

The requirements in ASC 260-10-55-12 also apply in situations in which stock dividends are declared, but not paid until after the balance sheet date. That is, the computations of basic and diluted EPS should be retroactivity adjusted for all periods presented when a change in capital structure occurs due to a stock dividend declared or a stock split, even if such dividends have not been paid as of the balance sheet date. If per-share computations reflect such changes in the number of shares, that fact should be disclosed.

4.1.1.2 Prior-Period Adjustments

ASC 260-10-55-15

If authoritative literature requires that a restatement of the results of operations of a prior period be included in the income statement or summary of earnings, then EPS data given for the prior period or periods shall be restated. The effect of the restatement, expressed in per-share terms, shall be disclosed in the period of restatement.

ASC 260-10-55-16

Restated EPS data shall be computed as if the restated income or loss had been reported originally in the prior period or periods. Thus, it is possible that common stock assumed to be issued upon exercise, conversion, or issuance of potential common shares in accordance with the provisions of this Subtopic may not be included in the computation of restated EPS amounts. That is, retroactive restatement of income from continuing operations could cause

> potential common shares originally determined to be dilutive to become antidilutive pursuant to the control number provision in paragraph 260-10-45-18. The reverse also is true. Retroactive restatement also may cause the numerator of the EPS computation to change by an amount that differs from the amount of the retroactive adjustment.

As described in ASC 260-10-55-15 and 55-16, U.S. GAAP requires that a restatement of the results of operations of a prior period be included in the income statement or summary of earnings. In those instances, EPS data given for the prior periods must be restated, and the effect of the restatement in per-share amounts must be disclosed in the period of restatement.

4.1.1.3 Business combinations

> **ASC 260-10-55-17**
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> When common shares are issued to acquire a business in a business combination, the computations of EPS shall recognize the existence of the new shares only from the acquisition date. In reorganizations, EPS computations shall be based on analysis of the particular transaction and the provisions of this Subtopic.

Per ASC 260-10-55-17, when common shares are issued in a business combination, the computations of EPS should recognize the existence of the new shares only from the acquisition date.

4.2 Disclosure

> **ASC 260-10-50-1**
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> For each period for which an income statement is presented, an entity shall disclose all of the following:
>
> a. A reconciliation of the numerators and the denominators of the basic and diluted per-share computations for income from continuing operations. The reconciliation shall include the individual income and share amount effects of all securities that affect **earnings per share** (EPS). Example 2 (see paragraph 260-10-55-51) illustrates that disclosure. (See paragraph 260-10-45-3.) An entity is encouraged to refer to pertinent information about securities included in the EPS computations that is provided elsewhere in the financial statements as prescribed by Subtopic 505-10.
>
> b. The effect that has been given to preferred dividends in arriving at **income available to common stockholders** in computing basic EPS.
>
> c. Securities (including those issuable pursuant to contingent stock agreements) that could potentially dilute basic EPS in the future that were not included in the computation of diluted EPS because to do so would have been antidilutive for the period(s) presented. Full disclosure of the terms and conditions of these securities is required even if a **security** is not included in diluted EPS in the current period.
>
> **ASC 260-10-50-1A**
>
> Per-share amounts not required to be presented by this Subtopic that an entity chooses to disclose shall be computed in accordance with this Subtopic and disclosed only in the notes to financial statements; it shall be noted whether the per-share amounts are pretax or net of tax. (See paragraph 260-10-45-5.)
>
> **ASC 260-10-50-2**
>
> For the latest period for which an income statement is presented, an entity shall provide a description of any transaction that occurs after the end of the most recent period but before the

financial statements are issued or are available to be issued (as discussed in Section 855-10-25) that would have changed materially the number of common shares or potential common shares outstanding at the end of the period if the transaction had occurred before the end of the period. Examples of those transactions include the issuance or acquisition of common shares; the issuance of warrants, **options**, or convertible securities; the resolution of a contingency pursuant to a **contingent stock agreement**; and the conversion or exercise of potential common shares outstanding at the end of the period into common shares.

ASC 260-10-50-1 to 50-2 provides the general disclosure requirements related to EPS. Pursuant to this guidance, for each period for which an income statement is presented, the following disclosures are required:

- A reconciliation of the numerators and the denominators of the basic and diluted per-share computations for income from continuing operations, which must include both the individual income and share effects of all securities that affect EPS
- The effect that has been given to preferred dividends in arriving at income available to common stockholders in computing basic EPS
- Securities (including those issuable pursuant to contingent stock agreements) that could potentially dilute basic EPS in the future that were not included in the computation of diluted EPS because their inclusion would have been antidilutive for the periods presented

For the most recent period for which an income statement is presented, an entity is required to provide a description of any transaction (including the number of securities involved) that occurred after the end of the most recent period but before the financial statements are issued or are available to be issued that would have changed materially the number of common shares or potential common shares outstanding at the end of the period if the transaction had occurred before the end of the period. Examples of those transactions include:

- Issuance or acquisition of common shares (other than in connection with a stock dividend, stock split or a reverse stock split)
- Issuance of warrants, options, or convertible securities
- Resolution of a contingency pursuant to a contingent stock agreement
- Conversion or exercise of potential common shares outstanding at the end of the period into common shares

When there has been a retroactive adjustment to all per-share data presented because of a stock dividend, stock split or reverse stock split (either during the period or after the close of the period but before the financial statements are issued or are available to be issued) that fact is required to be disclosed.

ASC 260-10-55-51 and 55-52 provide an illustrative example of the reconciliation of the numerators and denominators of the basic and diluted EPS computations.

ASC 260-10-55-51

This Example illustrates the reconciliation of the numerators and denominators of the basic and diluted EPS computations for income from continuing operations and other related disclosures required by paragraph 260-10-50-1 for Entity A in Example 1. Note that Topic 718 has specific disclosure requirements related to share-based compensation arrangements.

ASC 260-10-55-52

The following table illustrates the computation of basic and diluted EPS for the year ended 20X1.

	For the Year Ended 20X1		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Income from continuing operations	$ 7,500,000		
Less: Preferred stock dividends	(45,000)		
Basic EPS			
Income available to common stockholders	7,455,000	3,991,666	$ 1.87
Effect of Dilutive Securities			
Warrants		30,768	
Convertible preferred stock	45,000	308,333	
4% convertible debentures	60,000	50,000	
Diluted EPS			
Income available to common stockholders + assumed conversions	$ 7,560,000	4,380,767	$ 1.73

Options to purchase 1,000,000 shares of common stock at $85 per share were outstanding during the second half of 20X1 but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares. The options, which expire on June 30, 20Y1, were still outstanding at the end of year 20X1.

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