

43 Lecture - MGT401

Important Subjective

1. **What is the purpose of calculating earnings per share?**

Answer: The purpose of calculating earnings per share is to provide investors and analysts with a metric that allows them to evaluate a company's profitability on a per-share basis.

2. **What is the difference between basic EPS and diluted EPS?**

Answer: Basic EPS is calculated by dividing net income by the weighted average number of outstanding common shares, while diluted EPS takes into account the potential dilutive effect of convertible securities.

3. **What are potential ordinary shares?**

Answer: Potential ordinary shares are securities or instruments that have the potential to be converted into ordinary shares.

4. **What is a simple capital structure?**

Answer: A simple capital structure is a capital structure that has only common shares outstanding.

5. **What is a complex capital structure?**

Answer: A complex capital structure is a capital structure that has potential ordinary shares outstanding.

6. **How do companies calculate the weighted average number of outstanding common shares?**

Answer: Companies calculate the weighted average number of outstanding common shares by multiplying the number of shares outstanding by the percentage of the year that the shares were outstanding and then adding up the resulting products.

7. **What disclosures related to EPS must companies make in their financial statements?**

Answer: Companies must disclose both basic and diluted EPS figures, as well as information related to potential ordinary shares and changes in their capital structure.

8. **How can a company's EPS be affected by a stock split?**

Answer: A stock split can increase the number of outstanding shares, which can decrease EPS if net income remains the same.

9. **What is the dilutive effect of potential ordinary shares?**

Answer: The dilutive effect of potential ordinary shares is the potential impact on EPS if all potential ordinary shares were converted to ordinary shares.

10. **How can companies manipulate EPS figures?**

Answer: Companies can manipulate EPS figures through share buybacks, changes in their capital structure, or other financial engineering tactics.