



Earnings per share

Frequently asked questions

CFO Financial Forum webcast series

May 2020

EPS: Back-to-basics refresher (May 13, 2020)

How is temporary (mezzanine) equity treated for EPS purposes? When making numerator adjustments in basic EPS, are adjustments made for temporary equity?

SEC guidance requires an equity instrument with a redemption feature that is not solely within the control of the issuer to be classified outside of permanent equity – often referred to as classification in temporary or mezzanine equity. This classification guidance applies to SEC registrants, but other entities may apply it voluntarily as a policy election.

The following questions in the [EPS handbook](#) specifically address temporary equity:

- [Question 3.3.20](#) How do instruments classified as temporary equity affect EPS?
- [Question 5.3.40](#) How is income adjusted for temporary equity-classified common shares redeemable at other than fair value?
- [Question 6.19.70](#) How are redeemable shares held by an ESOP and classified as temporary equity treated for EPS purposes?

Also refer to [chapter 5](#) of the EPS handbook, if the instruments are participating securities.

Should contingently convertible preferred stock be included in the basic EPS calculation, and what method should be used for contingently convertible preferred shares in the diluted EPS calculation?

Contingently convertible preferred stock is considered a contingently convertible instrument, and is included in diluted EPS using the if-converted method. Adjustments to the numerator also can arise from contingently convertible preferred stock.

For further information, refer to the following sections in the [EPS handbook](#):

- [Section 3.3](#) Step 1 – Determine the numerator
- [Section 6.10](#) Contingently issuable common shares (and common shares subject to recall)
- [Section 6.12](#) Convertible instruments
- [Section 6.14](#) Preferred shares

Also refer to [chapter 5](#) of the EPS handbook, if the instruments are participating securities.

How are share awards under restricted plans treated? Can you please provide an example of typical time-vested RSUs and their potential dilutive impact?

Restricted awards are generally considered only for diluted EPS, unless the restrictions have lapsed. [Section 6.8](#) in the [EPS handbook](#) discusses restricted stock. In addition, the following questions and examples may be relevant:

- [Question 3.4.08](#) Are shares underlying either award exercises or restricted awards, where restrictions have lapsed, included in basic EPS?
- [Question 5.5.60](#) Should losses be allocated to restricted stock?
- [Example 5.7.10](#) Basic and diluted EPS for an entity with participating RSUs

When calculating numerator adjustments, is the effective tax rate for the year or the statutory rate used?

The statutory tax rate is used when calculating EPS numerator adjustments.

Is there a ranking for securities included in diluted EPS using the treasury stock method?

Securities included in diluted EPS have 0 earnings per incremental share, because there is no adjustment to the numerator. However, as discussed in [Section 4.5](#) to the EPS handbook, these are ranked starting with the class that results in the greatest number of incremental shares. Also refer to [chapter 5](#) of the EPS handbook, if the instruments are participating securities.

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